

Annual Report 2019

Heidelberg District Community Enterprise Limited

East Ivanhoe and Heidelberg
Community Bank® branches

ABN 62 095 312 744



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Chairman's Report

Year ending 30th June 2019

It is with pleasure that I present this nineteenth Annual Report of Heidelberg District Community Enterprise Limited to shareholders.

Our vision is to be a key element in the success of our community's development, sustainability and prosperity. We will provide a level of service and community involvement that has people feeling left out if they are not banking with either Heidelberg **Community Bank®** or East Ivanhoe **Community Bank®**.

Our Mission

Our mission is

- to grow a sound and profitable banking facility for the Heidelberg, East Ivanhoe and surrounding communities
- to provide value for our shareholders, staff, customers and the community and
- to support community programs and groups in providing key benefits to their communities by allocating annually a minimum of 25% of our *Gross Profit to this purpose.

* Gross Profit is Profit before Income tax and Charitable Donations

The **Community Bank®** network is arguably the largest social enterprise in the world. The **Community Bank®** constitution states that no more than 20% of our net profit can be returned to shareholders. The remaining 80% is then available for injecting into our community via our annual grants program and our biannual sponsorship program. A great achievement this year is the external recognition that our company Heidelberg District Community Enterprise Limited has received certification as a B Corp company. <https://bcorporation.com.au/>

The 12 months July 2018 to June 2019 has been solid and sound. We have weathered the initial impact of the Hayne Banking Royal Commission and the challenging business environment. We have again faced a very tough year with low interest rates, narrow margins, property doldrums, low business confidence and a changing regulatory environment facing all banks. Operating in this unprecedented subdued environment naturally impacts on our share of the revenue stream under our franchise agreement, a situation that keeps the Board vigilant in oversight of revenue and expenses. Pleasingly our Company has continued to grow in this current environment. I am therefore very proud to present the following highlights for the 2019 financial year:

Current Position

I announce to you that for the 2018/19 year the Company made a profit of \$329,569 before income tax. This is a reduction on last year's profit before tax of \$440,931. Gross revenue increased by 1% to \$2,519,346. Profit after tax has reduced 25% to \$236,792.

This result is reached after deducting our annual allocation toward community grants and sponsorships which this year totalled \$200,000.

The actual financial commitment we make available to the community grants program is a decision made by the Board in May. This decision allocates an amount into the Community Enterprise Foundation, a grant management foundation with rigorous governance protocols, further ensuring our monies are allocated effectively, transparently and appropriately. This year we committed a generous \$200k to the CEF for granting back into our community.

During the last 12 months the number of accounts operated at the branches has grown and the value of our banking book has increased from \$386,000,000 to \$ 401,600,000. This saw us achieving our Strategic Plan goal of reaching \$400 million by 2019.

At the 30th June, Heidelberg District Community Enterprise Limited had healthy retained earnings of \$773,232. We believe the Company is sound, is governed well, that Bendigo and Adelaide Bank provides a great product and we as a business continue to aim to deliver exemplary service.

Chairman's Report (*continued*)

Management and Staff

Our highly experienced team are critical players in our Company's success. They are the Company's window to the community. They continue to present and uphold the vision of the Company. Our Management and staff team continue to work at maintaining the high level of service that our customers deserve and expect.

Jo-Ann Downey, Omaid Solangi, Sylvia Watson, Adam Greenland, Carole King, Susan Scroop, Julie Bullen, Kerryn Young and Samantha Dawes, under the leadership of Pooja Nayyar and Haylee Doering, have all contributed significantly to the past year's results.

We farewelled Justin Bice, our Mobile Relationship Manager, who accepted a Regional Manager role in NSW. Greg Arnott, Mobile Relationship Manager who has served with the Company since the Heidelberg Branch opened in 2009 chose a career move into Police Force in June. We also farewelled Liam Trinh a Customer Service Officer. Early in 2019 we welcomed Haylee Doering into the Heidelberg staff team. Haylee arrived with experience from the Bendigo and Adelaide Bank Preston branch.

Our Marketing Manager, Carly Kluge and Bookkeeper, Pam Tremlett have been an integral part of our Board's operation and our Company's success for many years. They provide support around the day to day execution of the Company's administration. The Board acknowledge and appreciate the energy and enthusiasm that the staff have for community banking, and the strong commitment to our Company's Vision and Values.

Business Initiatives and Development

This year we have continued to focus on spreading the story of community banking, creating greater awareness among the community, and through this, improving our business. The Directors and Management team working together are focusing directly on connecting and maintaining contact with all the community entities that have benefited from our grants and sponsorship program. We aim to embed a key understanding of the importance of supporting the bank that in turn supports them in their endeavours.

Our annual business breakfast for key community business members held at the Old England Hotel was indeed a successful and well-supported event. David Robinson, Head of Financial Markets for Bendigo and Adelaide Bank was a great keynote speaker who informed those in attendance the global and local perspective of the economic climate.

Our Marketing and Business Development initiatives are aligned with Bendigo and Adelaide Bank Marketing to ensure the messages heard through National and State campaigns are reinforced by our local activities.

The Better Big Bank campaign is achieving cut through in what we know is a flat and challenging market. It has been affirming to notice billboards on major traffic corridors, TV advertising and a strong radio presence.

Community Contributions

During this 12 month period the East Ivanhoe **Community Bank®** and Heidelberg **Community Bank®** branches of Bendigo and Adelaide Bank have supported the community with a figure of \$274,262.

The breakdown of this figure has been: --

- \$144,495 toward sponsorships.
- \$129,767 towards grants to different local not-for-profit organisations.

See the table at the end of this annual report for a detailed list of recipients.

We again have continued supporting the Youth Foundation Program in Heidelberg West, our major grant which is now in its 13th year with our total contribution reaching \$520,000. We are particularly proud of the leadership we have shown with the Youth Foundation Parkville College Program that has seen 24 fellow community banks acknowledging the importance of the program and joining us in supporting youth in detention.

Through our sponsorship and grants program we are building a healthier, stronger and more resilient community. We are also focused on growing our business as a result of this investment into our community. It is our aim to maximise this return on our community investment to ensure our investment into our community is sustained, and the Company's vision and mission is achieved.

Chairman's Report (*continued*)

Shareholders

Thank you for your support. You are ambassadors of community banking and understand the tangible benefits it brings to our community. You have enabled this incredible business that feeds into the prosperity of communities and not off it. The Board of Directors join me in encouraging those shareholders who are not yet banking with the East Ivanhoe **Community Bank®** or Heidelberg **Community Bank®** branches of Bendigo Bank that you consider doing so. For those who are enjoying the community banking experience we encourage you to share this with family and friends.

Support the Bank that Supports your Community.

Proudly, in this our nineteenth year of operation, the Board of Directors has announced a dividend of 7.5¢ per share fully franked for 2019. This is our sixteenth successive dividend allocation.

See the table at the end of this Annual Report for a look at our past dividend allocation. We remind you that trading of our shares is on the open market at the National Stock Exchange.

Board of Directors

This past year has seen two changes to Board personnel. We have welcomed Amy Coote who joins the Board with expertise in the not for profit sector. We farewelled John Nota who contributed in various areas of governance and assisted in the pursuit of B Corp certification.

All Board members share positions on the following Committees; Human Resources, Audit and Governance, Marketing and Business Development, Property and Grants. This year Directors have attended various professional development seminars and workshops held throughout the year including refreshers of the Essential Governance run by Governance Institute Australia. In conjunction with Bendigo and Adelaide Bank, our Company is well respected in the **Community Bank®** network and is seen as a mature, well-functioning company that can assist and mentor younger, less established companies in their journey to achieve their goals.

In the role as Chairman, I am grateful for the support of Deputy Chairman David Mayne, Company Secretary Russell Hutchins, Treasurer Jason Dwyer and all other Board members. Our Board members contribute generously of their time and of their expertise.

Directors on the Heidelberg District Community Enterprise Limited Board together embrace the philosophy of community banking and work cooperatively toward achieving our goals.

I look forward to our Annual General Meeting with the shareholders on Tuesday, 12th November 2019.



Nancy Caple

Chairman

Managers' Report

Year ending 30th June 2019

This year has been a challenging year with some significant events, including the Hayne Royal Commission, regulatory changes and the Federal election with potential changes to franking credits and negative gearing. In addition, the combination of low investor confidence, low loan volumes, margin pressures and a weakening housing market created a challenging environment for growth.

Despite these challenges, our Company had a profitable year under the leadership of Pooja Nayyar and Haylee Doering. How rewarding it is to see another great year of giving back to the communities of Heidelberg, East Ivanhoe and surrounding suburbs. Below are some of the key metrics which underpin the performance of Heidelberg **Community Bank®** and East Ivanhoe **Community Bank®** branches:

\$ 274,262 given in community contributions to local community groups during this year through our grants and sponsorship programs. Over \$3.1 million in community contributions now been given since opening our doors back in 2001.

Our combined book now exceeds \$401 million in banking business. This is growth of \$15 million in the last 12 months.

One thing is for certain and that is change, particularly in the way of people. We welcomed two new staff members to our team, Omaid Solangi - Customer Relationship Officer at East Ivanhoe and Haylee Doering - Branch Manager at Heidelberg. Both have settled into their respective roles well and we look forward to their input in progressing our business. We farewelled three valued team members; Justin Bice, Liam Trinh and Greg Arnott. We sincerely thank them for their contribution and wish them all the best with their future endeavours.

What makes our branches as successful as they are is that we put our vision into action. We have a strong focus on customer service in-branch, as well a strong commitment to strengthening our existing relationships and building new ones. We would like to acknowledge the efforts of the team who have remained customer centric and have contributed time and effort to various community events. We thank the Heidelberg and East Ivanhoe teams, we thank them for their commitment to provide the highest level of service to our customers and community groups. We also thank the Board of Directors who contribute their time and effort to ensuring the success of Heidelberg District Community Enterprise Limited, you, our shareholders, who continue to back the **Community Bank®** enterprise and our partner Bendigo and Adelaide Bank for their support as we seek to grow our business.

The year ahead presents another challenging environment as the banking industry adjusts to new regulatory changes. We, as a team, are well prepared to take on these challenges and our focus remains on the development and upskilling of the staff. Together we strive to build long lasting relationships with our customers and community partners.

We would like to extend our thanks to our customers, shareholders and community groups who have supported us over all these years and encourage them to be our advocates and continue to refer family and friends to us.



Pooja Nayyar
Branch Manager
East Ivanhoe Branch

Haylee Doering
Branch Manager
Heidelberg Branch



1. The team from the Banyule Toy Library did a great job of sharing their need for new high quality sustainable toys at the Community Pitch Night.
2. Each year the talented voices of the ARCapella Junior Choir congregate outside our branches to fill the street with Christmas Joy with their Christmas Carols – and last year was no exception.
3. We were thrilled to support the Heidelberg Girl Guides with funds to purchase much-needed camping equipment including new tents and cooking equipment.
4. The students of East Ivanhoe Primary School warmly welcomed East Ivanhoe Branch Manager Pooja, along with Director John Nelson and Piggy, to present them with a cheque for their student philanthropy project.
5. Members of our Management team were proud to share the new guernseys that your Community Bank funded for the Heidelberg Football Club Women's Teams in 2019.

6. The 2019 Heidelberg Community Pitch Night was a highlight on our annual calendar – with all Directors and Staff members pitching in to make it a success!
7. The Heidelberg Allstars were all smiles at the 2019 Community Pitch night, as they raised funds for their costumes for the 2020 concert season.
8. Our team was hard at work at the 2019 Banyule Festival and Arty Farty Festival. Together we churned out hundreds of badges, magnets and key rings - each carefully designed by young festival-goers.
9. The Ivanhoe Amateur Football Club joined us in this year's Grand Parade for the Arty Farty Festival, proudly highlighting the "U" in Community!
10. One of our longest running sponsorships is that of the Ivanhoe Park Croquet Club, and as usual they came out in force to join us in this year's Festival.

Community Engagements



11. We were once again the Major Sponsor of Banyule Council's Women in Business lunch, in 2019 featuring guest speaker Abigail Forsyth, Founder of KeepCup, pictured here with Chair Nan Caple and Heidelberg Branch Manager Haylee Doering.
12. This year's Grand Parade at the Arty Farty Festival was huge, and the sea of support shown to the Community Bank® on display for all to see.
13. The Parkside Netball Club celebrated their inaugural "Club Spirit" night and we were there to join them. The club has grown to over 200 players in their 5 year history.
14. This year we collaborated with many other Community Bank branches across Victoria to support Griefline, and the Razor Ride which saw bike riders trek across the State to raise further funds for this important cause.
15. We proudly continue to support many sporting clubs throughout our community, including the thriving Rosanna Bowling Club.
16. Jo-Ann had no shortage of junior helpers as she ran the school banking sign-up morning at Fairfield Primary School.
17. The 10th Ivanhoe Scout Group were overjoyed with the pitch dollars they received to fund their new boats.
18. The Somali Australia Council of Victoria pitched their "Somali Week Celebrations" at the Community Pitch night, raising funds to showcase the best of their culture at this week-long event.
19. We are very proud to be the seed funders for the West Heidelberg Legal Service Graduate Somali Lawyer program, with Yusuf Mohamed taking on the role in its inaugural year.

Bendigo and Adelaide Bank Report

Year Ending 30th June 2019

As a bank of 160-plus years, we're proud to hold the mantle of Australia's fifth biggest bank. In today's banking environment it's time to take full advantage of this opportunity and for even more people to experience banking with Bendigo Bank and our way of banking, and with our **Community Bank®** partners.

In promoting our point of difference it's sometimes lost that although we're different, we're represented in more than 500 communities across Australia and offer a full suite of banking and financial products and services. In many ways we're also a leader in digital technology and meeting the needs of our growing online customer base, many of whom may never set foot in a traditional bank branch.

At the centre of our point of difference is the business model you chose to support as a shareholder that supports local communities. Whether you're a shareholder of our most recent **Community Bank®** branch which opened in Smithton, Tasmania, in June 2019, or you're a long-time shareholder who, from more than 20 years ago, you all play an important role. Your support has enabled your branch, and this banking model, to prosper and grow. You're one of more than 75,000 **Community Bank®** company shareholders across Australia who are the reason today, we're Australia's only bank truly committed to the communities it operates in.

And for that, we thank you. For the trust you've not only put in Bendigo and Adelaide Bank, but the faith you've put in your community and your **Community Bank®** company local board of directors.

Bendigo and Adelaide Bank continues to rank at the top of industry and banking and finance sector awards. We have awards for our customer service, we have award winning products and we have a customer base that of 1.7 million-plus that not only trusts us with their money, but which respects our 'difference'.

As a Bank, we're working hard to ensure that those who are not banking with us, and not banking with your **Community Bank®** branch, make the change. It really is a unique model and we see you, the shareholder, as playing a key role in helping us grow your local **Community Bank®** business. All it takes is a referral to your local branch manager. They'll do the rest.

We find that our customer base is a very loyal group. It's getting people to make the change that's the challenge. In today's environment, we've never had a better chance to convince people to make the change and your support in achieving this is critical.

From Bendigo and Adelaide Bank, once again, thank you for your ongoing support of your **Community Bank®** branch and your community.

We would also like to thank and acknowledge the amazing work of your branch staff and directors in developing your business and supporting the communities that you live and work in.



Mark Cunneen

Head of Community Support
Bendigo and Adelaide Bank

Directors' Report

For the year ended 30 June 2019

Your Directors submit the financial statements of the Company for the financial year ended 30 June 2019.

Directors

The names and details of the Company's Directors who held office during the financial year:

Nancy Louise Caple

Chair and Independent Non-executive Director

Self employed

Nancy established and operated So Swish (retail business) from 1989 – 2016. She was instrumental in establishing the East Ivanhoe Community branch in 2000. She holds a Bachelor of Education and taught in Secondary Physical Education – Outdoor Education prior to 1989. She currently holds the elected position of Chair on the Community Bank National Council. She is also the Company Secretary for the family management consulting business and Chair of the Sycamore Tree Uniting Church Coffee Shop management committee.

Committee member: Marketing and Business Development, Human Resources

Interest in shares: 22,077

Russell James Hutchins

Company Secretary and Independent Non-executive Director

Retired IT Consultant

Prior to retiring in 2018, Russell had over 30 experience in banking and information technology and has worked in a variety of technical and commercial roles. He holds degrees in Science and Business. He is committed to ensuring that the Company operates as a well-managed, ethical, high functioning and profitable business to enable it to continue supporting local community initiatives and organisations to the fullest extent possible.

Committee member: Audit and Governance (Chair for part of the year), Human Resources

Interest in shares: 13,000

Brian Thomas Simpson

Independent Non-executive Director

Retired Bank Executive

Brian has had a highly successful career in the banking sector spanning four decades. He has a particular interest in sporting organizations and lives locally in Eaglemont.

Committee member: Human Resources (Chair), Audit and Governance.

Interest in shares: 10,000

John Kenneth Nelson

Independent Non-executive Director

Retired Accountant

John served on the Board from 2007 to 2012, and after a break returned in December 2015. John is a qualified Chartered Accountant, and has over 35 years experience in industry as an accountant. He retired from full-time work 10 years ago. He has extensive corporate secretariat knowledge including previously performing the role of Company Secretary for an ASX listed Company. John has lived in the local area all of his life.

Committee member: Human Resources, Audit and Governance

Interest in shares: 1,533

Directors' Report (*continued*)

Directors (*continued*)

Jason Gerard Dwyer

Treasurer (part of the year) and Independent Non-executive Director

Senior Management

Jason has worked for Bendigo Bank across many roles in business finance in key leadership roles across debtor finance, customer experience, equipment finance. He is currently the Senior Manager SME & Micro Business, responsible for the bank's strategy for small business. He has held executive IT leadership roles, and is a CPA qualified accountant with 10 years in public practice and a strong background in information systems. Jason holds Bachelor degrees in Arts and Commerce from La Trobe University, and a Graduate Diploma in Information Systems. He has lived in Heidelberg for 15 years.

Committee member: Audit and Governance (Chair for part of the year), Marketing and Business Development

Interest in shares: 5000

Peter Richard Drapac

Independent Non-executive Director

Director/Owner of The National Business Institute of Australia

Peter has lived in the Heidelberg/Ivanhoe area most of his life. Peter started his career as a teacher and has gone on to own and run several businesses in health, retail, manufacturing, financial services and currently education. Peter holds a Bachelor of Applied Science, Diploma of Auditing, Diploma of Education, and Bachelor of Business (Finance).

Committee member: Property (Chair for part of the year)

Interest in shares: Nil

Anne Marie Rogan

Independent Non-executive Director

Education Manager

Anne is a Senior Manager at Education Services Australia, managing large national education projects across government, independent and catholic schools and states. Prior to this, Anne worked as a lecturer at the University of Melbourne for 18 years.

Committee member: Marketing and Business Development

Interest in shares: Nil

Amy Louise Coote

Independent Non-executive Director (Appointed 10 December 2018)

National Fundraising & Engagement Manager, Ardoch

Amy is a senior leader in the not-for-profit sector with experience in development, partnerships, fundraising, marketing, philanthropy and strategy. Amy is currently the National Fundraising & Engagement Manager with Ardoch and has had roles with Austin Health & the Olivia Newton-John Cancer Centre, Redkite and Mission Australia. She is also on the Founding Executive Committee of the Melbourne Women's Fund, one of Australia's leading Giving Circles. Prior to this, Amy held senior business development and project leadership roles in the professional conference and events sector and hotel industry. Amy was awarded a Bachelor of Applied Science with distinction from R.M.I.T and more recently achieved First Class Honours in her Specialist Certificate in Executive Leadership from the University of Melbourne.

Committee member: Marketing and Business Development

Interest in shares: Nil

David John Mayne

Independent Non-executive Director (Resigned 30 June 2019)

Retired

David worked in the communication industry for over 35 years, holding positions in engineering, sales & marketing and commercial management. He has also worked in the mining industry. David has extensive experience at the executive management level with a major communication Company and worked part time in Infrastructure (Project Management). David is married with two children and has lived in the area for over 30 years. He is an active member of the Heidelberg community.

Committee member: Marketing and Business Development, Property(Chair)

Interest in shares: 32,000

Directors' Report (continued)

Directors (continued)

Age Johannes Wilhelm Nota

Treasurer (part of the year) and Independent Non-executive Director (Resigned 9 March 2019)

Retired

John Nota is an economist with 40 years of corporate experience. John has held senior executive financial positions within a number of publicly listed Australian and international companies. John started his career at the Commercial Bank of Australia Limited. He joined CRA Limited in 1981 where he held executive treasury management roles as well as general management roles in equity finance, investor relations, investment management and financial risk management. John was Managing Director of CRA Finance Limited (the internal banking group for CRA) at the time of merger between The RTZ Corporation plc and CRA Limited. Subsequently, John was appointed to the position of Group Treasurer and Head of Corporate Finance for AXA Pacific Holdings Limited, where he was responsible for the Group's funding and financial risk management as well as being extensively involved in the Group's M&A activities. From 2003 to 2007, John was Head of Legal Operations at the National Australia Bank. In recent years, John has provided consulting advice to Commonwealth Bank Australia, National Australia Bank, Pacific Edge and The Boston Consulting Group. John also has considerable Board experience, having been a board member of a number of finance companies and a hotel management Company. He is currently Chairperson of Olympic Adult Education, Inc. Qualifications: Bachelors of Economics, La Trobe University, 1976. Post graduate studies: London Business School, 2002. Advanced Management Courses: Australia Graduate School of Management, AXA University.

Committee member: Audit and Governance

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 Russell James Hutchins. Russell was appointed to the position of Secretary on 13 November 2012.

Russell has more than 30 years commercial experience in the banking and information technology industries and holds degrees in both Science and Business.

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 performed in line with expectations given the prevailing subdued economic conditions. The profit of the Company for the financial year after provision for income tax was:

| Year ended 30 June 2019 \$ | Year ended 30 June 2018 \$ |
|-------------------------------|-------------------------------|
| 236,792 | 319,675 |

Operating and Financial Review

Operations

The Company is a sole purpose entity providing banking services under a franchise agreement with Bendigo and Adelaide Bank Limited. Although the Company is reliant on Bendigo and Adelaide Bank for its products, services and operational procedures and policies, the model has been proven both robust and successful. This has provided the Company with a sound commercial foundation upon which to build its local business operations.

Financial position

The strength of the balance sheet has improved with retained earnings increasing over the previous year. The Company is in a strong cash position and has cash holdings well in excess of the franchise obligations.

The Company has no debt on its investment property, which is considered to be a strategic investment for the business.

The Company is managing its liabilities with the view to keeping them as low as possible. The Company has sufficient liquidity to meet its ongoing commitments.

Discussion of business strategies

The Board continually reviews strategies revolving around the properties from which its branches operate, taking into account current leases and available suitable alternative sites.

The objectives of this approach are to enhance shareholder value and most effectively utilise Company resources.

Prospects for future financial years

The Company's business growth revolves very strongly around close, consistent and targeted local marketing. The Marketing and Business Development Committee works closely with the Company's Community Liaison Officer and the management team on winning new business using a variety of strategies to leverage the Company's community relationships.

The Company continually evaluates all operational risks and, other than those financial risks identified in Note 2 to the Financial Statements, does not consider there are any significant risks that are likely to have a detrimental impact on its business.

Remuneration Report

Remuneration policy

The remuneration policy of Heidelberg District Community Enterprise Limited has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific incentives based on key performance areas affecting the Company's financial results. The Board believes the remuneration policy to be appropriate and effective in its ability to attract and retain key management personnel to run and manage the Company, as well as create alignment between directors, managers and shareholders.

Key management personnel remuneration policy

Key management personnel receive a base salary (which is based on factors such as experience), superannuation and performance incentives.

The performance of key management personnel is measured against criteria agreed annually with each Manager and is based predominantly on the forecast growth of the Company's financial indicators and the contribution of each Manager towards achieving these targets. The Board may exercise its discretion in relation to approving incentives and bonuses. The policy is designed to attract high calibre managers and reward them for performance results.

Key management personnel also receive a superannuation guarantee contribution required by the government, which is currently 9.5%, and do not receive any other retirement benefits. Some individuals may choose to sacrifice part of their salary to increase payments towards superannuation.

Employment agreements have been entered into with key management personnel, the terms of which are not expected to change in the immediate future. Key management personnel are paid employee benefit entitlements accrued to date of leaving the employment of the Company.

Remuneration structure

All Directors are independent non-executive Directors and are eligible to be paid directors' fees.

Directors' Report (continued)

Remuneration Report (continued)

Non-executive Director remuneration policy

The Board's policy is to remunerate non-executive Directors for their time, commitment and responsibilities. The amount paid is determined by the Board.

Fees for non-executive Directors are not linked to the performance of the Company.

Key management performance based remuneration

The key performance indicators (KPIs) are set annually in consultation with key management personnel to ensure commitment. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for lending and deposit growth and profit. The level set for each KPI is based on budgeted figures for the Company and respective industry standards.

Performance in relation to the KPIs is reviewed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the Board in consultation with regional management of Bendigo and Adelaide Bank Limited.

Company performance

The following table shows the gross revenue, profits and dividends for the last 8 years for the Company, as well as the share prices at the end of the respective financial years. Whilst revenue (other than in 2014 and 2015) has generally increased year on year, the net profit in any year has not necessarily risen in line with revenue growth. This is because the Company has prioritised grants and sponsorships to community groups in preference to reporting profit growth. The Company's performance over the last 8 years has not been reflected in the Company's share price, albeit that in recent years dividends have been maintained or increased.

| | 2019 \$ | 2018 \$ | 2017 \$ | 2016 \$ | 2015 \$ | 2014 \$ | 2013 \$ | 2012 \$ |
|-------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Revenue | 2,519,346 | 2,494,759 | 2,342,173 | 2,200,696 | 2,182,225 | 2,234,966 | 2,453,930 | 2,131,142 |
| Net profit/(loss) | 236,792 | 319,675 | 301,362 | 70,236 | 116,575 | 118,588 | 295,074 | 126,809 |
| Share price at year end | 0.75 | 0.75 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.80 |
| Net dividend paid | 160,887 | 137,903 | 114,919 | 114,919 | 137,903 | 137,903 | 137,903 | 114,919 |

Directors' remuneration

For the year ended 30 June 2019 the Directors received total remuneration, as follows:

| | \$ |
|---|---------------|
| Nancy Louise Caple | 5,000 |
| Russell James Hutchins | 5,000 |
| Brian Thomas Simpson | 3,000 |
| John Kenneth Nelson | 3,000 |
| Jason Gerard Dwyer | 3,666 |
| Peter Richard Drapac | 3,000 |
| Anne Marie Rogan | 3,000 |
| Amy Louise Coote (Appointed 10 December 2018) | 1,500 |
| David John Mayne (Resigned 30 June 2019) | 3,000 |
| Age Johannes Wilhelm Nota (Resigned 9 March 2019) | 3,334 |
| | 33,500 |

Directors' Report (continued)

Remuneration Report (continued)

Fees and payments to Directors recognise the demands which are made on, and the responsibilities of, the Directors. Directors' fees are reviewed annually by the Board. The fees for the Chairman, Secretary and Treasurer are determined independently to the fees of remaining Directors.

Options issued as part of remuneration for the year ended 30 June 2019

No options have been issued as part of remuneration for the year ended 30 June 2019.

Employment Contracts of Directors

There are no employment contracts for Directors.

Directors' shareholdings

| | Balance at the start of year | Changes during the year | Balance at end of year |
|---|------------------------------|-------------------------|------------------------|
| Nancy Louise Caple | 22,077 | - | 22,077 |
| Russell James Hutchins | 13,000 | - | 13,000 |
| Brian Thomas Simpson | 10,000 | - | 10,000 |
| John Kenneth Nelson | 1,533 | - | 1,533 |
| Jason Gerard Dwyer | 5,000 | - | 5,000 |
| Peter Richard Drapac | - | - | - |
| Anne Marie Rogan | - | - | - |
| Amy Louise Coote (Appointed 10 December 2018) | - | - | - |
| David John Mayne (Resigned 30 June 2019) | 32,000 | - | 32,000 |
| Age Johannes Wilhelm Nota (Resigned 9 March 2019) | - | - | - |

Dividends

| | Year ended 30 June 2019 | |
|----------------------------|-------------------------|---------|
| | Cents per share | \$ |
| Dividends paid in the year | 7 | 160,887 |

Significant changes in the state of affairs

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

Events since the end of the financial year

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

Likely developments

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

Environmental regulation

The Company is not subject to any significant environmental regulation.

Directors' Report (continued)

Indemnification and insurance of Directors and Officers

The Company has indemnified all Directors and Officers in respect of liabilities to other persons (other than the Company or related body corporate) that may arise from their position as Directors or Officers 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 | | | | | | | |
|--|-------------------------|----|-----------------------------|---|-----------------|---|------------------------------------|---|----------|---|
| | | | Audit and Governance | | Human Resources | | Marketing and Business Development | | Property | |
| | E | A | E | A | E | A | E | A | E | A |
| Nancy Louise Caple | 11 | 9 | - | - | 6 | 5 | 11 | 9 | - | - |
| Russell James Hutchins | 11 | 10 | 5 | 5 | 2 | 2 | - | - | - | - |
| Brian Thomas Simpson | 11 | 7 | 5 | 3 | 6 | 5 | - | - | - | - |
| John Kenneth Nelson | 11 | 8 | 2 | 2 | 6 | 5 | - | - | - | - |
| Jason Gerard Dwyer | 11 | 8 | 5 | 3 | - | - | 11 | 4 | - | - |
| Peter Richard Drapac | 11 | 11 | - | - | - | - | - | - | 6 | 6 |
| Anne Marie Rogan | 11 | 10 | - | - | - | - | 5 | - | - | - |
| Amy Louise Coote (Appointed 10 December 2018) | 6 | 5 | - | - | - | - | - | - | - | - |
| David John Mayne (Resigned 30 June 2019) | 11 | 9 | - | - | - | - | 11 | 6 | 6 | 6 |
| Age Johannes Wilhelm Nota (Resigned 9 March 2019) | 7 | 7 | 4 | 4 | - | - | - | - | - | - |

E - eligible to attend
A - number attended

Proceedings on behalf of the company

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

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

Directors' Report (*continued*)

Non audit services

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

The Board of Directors has considered the position, in accordance with the advice received from the Audit and Governance Committee and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

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

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

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 17.

Signed in accordance with a resolution of the Board of Directors at Heidelberg, Victoria on 26 August 2019.



Russell James Hutchins, Director

Signed on the 26th of August 2019.

Auditor's Independence Declaration



Lead auditor's independence declaration under section 307C of the *Corporations Act 2001* to the directors of Heidelberg District Community Enterprise Limited

As lead auditor for the audit of Heidelberg District Community Enterprise Limited for the year ended 30 June 2019, 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: 26 August 2019

Graeme Stewart
Lead Auditor

Financial Statements

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2019

| | Notes | 2019 \$ | 2018 \$ |
|--|-------|----------------|----------------|
| Revenue from ordinary activities | 4 | 2,519,346 | 2,494,759 |
| Expenses | | | |
| Employee benefits expense | | (934,411) | (867,395) |
| Advertising and marketing expenses | | (155,394) | (146,931) |
| Occupancy and associated costs | | (304,675) | (264,732) |
| Systems costs | | (106,041) | (101,424) |
| Depreciation and amortisation expense | 5 | (72,441) | (68,648) |
| Finance costs | 5 | (154) | (55) |
| General administration expenses | | (272,166) | (258,393) |
| Profit before grants and sponsorships | | 674,064 | 787,181 |
| Grants and sponsorships | | (344,495) | (346,250) |
| Profit before income tax expense | | 329,569 | 440,931 |
| Income tax expense | 6 | (92,777) | (121,256) |
| Profit after income tax expense | | 236,792 | 319,675 |
| Other comprehensive income | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Revaluation gain on land and buildings, net of tax | | - | 223,241 |
| Total comprehensive income for the year attributable to the ordinary shareholders of the company: | | 236,792 | 542,916 |
| Earnings per share | | ¢ | ¢ |
| Basic earnings per share | 24 | 10.30 | 13.91 |

The accompanying notes form part of these financial statements

Financial Statements (continued)

Balance Sheet

as at 30 June 2019

| | Notes | 2019 \$ | 2018 \$ |
|--------------------------------------|-------|------------------|------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 7 | 1,115,999 | 1,036,177 |
| Trade and other receivables | 8 | 237,068 | 231,847 |
| Current tax asset | 11 | 14,140 | - |
| Total current assets | | 1,367,207 | 1,268,024 |
| Non-Current Assets | | | |
| Property, plant and equipment | 9 | 1,622,301 | 1,651,801 |
| Intangible assets | 10 | 134,929 | 28,398 |
| Total non-current assets | | 1,757,230 | 1,680,199 |
| Total assets | | 3,124,437 | 2,948,223 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Current tax liabilities | 11 | - | 31,699 |
| Trade and other payables | 12 | 103,047 | 61,908 |
| Borrowings | 13 | 1,320 | 1,066 |
| Provisions | 14 | 62,835 | 112,318 |
| Total current liabilities | | 167,202 | 206,991 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 11 | 113,881 | 98,744 |
| Trade and other payables | 12 | 124,729 | - |
| Provisions | 14 | 8,927 | 8,695 |
| Total non-current liabilities | | 247,537 | 107,439 |
| Total liabilities | | 414,739 | 314,430 |
| Net assets | | 2,709,698 | 2,633,793 |
| EQUITY | | | |
| Issued capital | 15 | 1,641,165 | 1,641,165 |
| Reserves | 16 | 295,301 | 295,301 |
| Retained earnings | 17 | 773,232 | 697,327 |
| Total equity | | 2,709,698 | 2,633,793 |

The accompanying notes form part of these financial statements

Financial Statements (continued)

Statement of Changes in Equity

for the year ended 30 June 2019

| | Notes | Issued Capital | Retained Earnings | Reserve | Total Equity |
|--|-------|------------------|-------------------|----------------|------------------|
| | | \$ | \$ | \$ | \$ |
| Balance at 1 July 2017 | | 1,641,165 | 515,555 | 72,060 | 2,228,780 |
| Total comprehensive income for the year | | - | 319,675 | 223,241 | 542,916 |
| Transactions with owners in their capacity as owners: | | | | | |
| Shares issued during period | | - | - | - | - |
| Costs of issuing shares | | - | - | - | - |
| Dividends provided for or paid | 23 | - | (137,903) | - | (137,903) |
| Balance at 30 June 2018 | | 1,641,165 | 697,327 | 295,301 | 2,633,793 |
| Balance at 1 July 2018 | | 1,641,165 | 697,327 | 295,301 | 2,633,793 |
| Total comprehensive income for the year | | - | 236,792 | - | 236,792 |
| Transactions with owners in their capacity as owners: | | | | | |
| Shares issued during period | | - | - | - | - |
| Costs of issuing shares | | - | - | - | - |
| Dividends provided for or paid | 23 | - | (160,887) | - | (160,887) |
| Balance at 30 June 2019 | | 1,641,165 | 773,232 | 295,301 | 2,709,698 |

The accompanying notes form part of these financial statements

Financial Statements (continued)

Statement of Cash Flows

for the year ended 30 June 2019

| | Notes | 2019 \$ | 2018 \$ |
|---|-------------|------------------|------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 2,766,293 | 2,719,808 |
| Payments to suppliers and employees | | (2,408,287) | (2,247,553) |
| Interest received | | 23,970 | 18,783 |
| Interest paid | | (154) | (55) |
| Income taxes paid | | (123,479) | (152,548) |
| Net cash provided by operating activities | 18 | 258,343 | 338,435 |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (17,634) | (46,138) |
| Proceeds from disposal of property, plant and equipment | | - | 15,455 |
| Net cash used in investing activities | | (17,634) | (30,683) |
| Cash flows from financing activities | | | |
| Dividends paid | 23 | (160,887) | (137,903) |
| Net cash used in financing activities | | (160,887) | (137,903) |
| Net increase in cash held | | 79,822 | 169,849 |
| Cash and cash equivalents at the beginning of the financial year | | 1,036,177 | 866,328 |
| Cash and cash equivalents at the end of the financial year | 7(a) | 1,115,999 | 1,036,177 |

The accompanying notes form part of these financial statements

Notes to the Financial Statements

For the year ended 30 June 2019

Note 1. Summary of significant accounting policies

a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The Company is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

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

Critical accounting estimates

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

Historical cost convention

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

Comparative figures

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

Application of new and amended accounting standards

There are two new accounting standards which have been issued by the AASB that became mandatorily effective for accounting periods beginning on or after 1 January 2018, and are therefore relevant for the current financial year.

AASB 15 Revenue from Contracts with Customers

AASB 15 replaces AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

AASB 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The existing revenue recognition through the monthly Bendigo and Adelaide Bank Limited profit share provides an accurate reflection of consideration received in exchange for the transfer of services to the customer. Therefore based on assessment this accounting standard has not materially affected any of the amounts recognised in the current period and is not likely to affect future periods.

AASB 9 Financial Instruments

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

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2019

Note 1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

AASB 9 Financial Instruments (continued)

Based on our assessment this accounting standard has not had any impact on the carrying amounts of financial assets or liabilities at 1 July 2018. For additional information about accounting policies relating to financial instruments, see Note 1 k).

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

The Company has elected not to apply any accounting standards or interpretations before their mandatory operative date for the annual reporting period beginning 1 July 2018. These future accounting standards and interpretations therefore have no impact on amounts recognised in the current period or any prior period.

AASB 16 Leases

Only AASB 16, effective for the annual reporting period beginning on or after 1 January 2019 is likely to impact the Company. AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

AASB 16 replaces existing leases guidance, including AASB 117 Leases and related Interpretations. This standard is mandatory for annual reporting periods beginning on or after 1 January 2019.

The Company plans to apply AASB 16 initially on 1 July 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information.

The Company has assessed the estimated impact that initial application of AASB 16 will have on its financial statements. The actual impacts of adopting the standard on 1 July 2019 may change.

The Company will recognise new assets and liabilities for operating leases of its branches. The nature of expenses related to these leases will now change as the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Company recognised operating lease expense on a straight-line basis over the term of the

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

Based on the information currently available, the Company estimates that it will recognise additional lease liabilities and new right-of-use assets of \$1,398,042.

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

Economic dependency - Bendigo and Adelaide Bank Limited

The Company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank®** branches at East Ivanhoe and Heidelberg, Victoria.

The branches operate 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.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2019

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

a) Basis of preparation *(continued)*

Economic dependency - 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 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 arises from the rendering of services through its franchise agreement with the Bendigo and Adelaide Bank Limited. The revenue recognised is measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts.

Interest and fee revenue is recognised when earned. The gain or loss on disposal of property, plant and equipment is recognised on a net basis and is classified as income rather than revenue. All revenue is stated net of the amount of Goods and Services Tax (GST).

Revenue calculation

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

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

Core banking products

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

Notes to the Financial Statements (*continued*)

For the year ended 30 June 2019

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

b) Revenue (*continued*)

Margin

Margin is arrived at through the following calculation:

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

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

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

Commission

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

Fee income

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

Discretionary financial contributions

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

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

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

Ability to change financial return

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

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

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

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

Notes to the Financial Statements (*continued*)

For the year ended 30 June 2019

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

b) Revenue (*continued*)

Monitoring and changing financial return

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

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

c) Income tax

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

d) Employee entitlements

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

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

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2019

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

e) Cash and cash equivalents

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

f) Trade receivables and payables

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

g) Property, plant and equipment

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

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

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

| | | |
|------------------------|---------|-------|
| buildings | 40 | years |
| leasehold improvements | 5 - 15 | years |
| plant and equipment | 25 - 40 | years |
| motor vehicle | 3 - 5 | years |

h) Intangibles

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

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

i) Payment terms

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

j) Borrowings

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

Notes to the Financial Statements (*continued*)

For the year ended 30 June 2019

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

k) Financial instruments

Recognition and initial measurement

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

Financial instruments (except for trade receivables) are initially measured at fair value plus transaction costs, except where the instrument is classified at fair value through profit or loss, in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Trade receivables are initially measured at the transaction price if the trade receivables do not contain a significant financing component or if the practical expedient was applied as specified in AASB 15.63.

Classification and subsequent measurement

(i) Financial liabilities

Financial liabilities include borrowings, trade and other payables and non-derivative financial liabilities (excluding financial guarantees). They are subsequently measured at amortised cost using the effective interest rate method.

The effective interest rate is the internal rate of return of the financial asset or liability, that is, it is the rate that exactly discounts the estimated future cash flows through the expected life of the instrument to the net carrying amount at initial recognition.

(ii) Financial assets

Financial assets are subsequently measured at:

- amortised cost;
- fair value through other comprehensive income (FVOCI); or
- fair value through profit and loss (FVTPL).

A financial asset is subsequently measured at amortised cost if it meets the following conditions:

- the financial asset is managed solely to collect contractual cash flows; and
- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principle amount outstanding on specified dates.

The Company's trade and most other receivables are measured at amortised cost as well as deposits that were previously classified as held-to-maturity under AASB 139.

A financial asset is subsequently measured at FVOCI if it meets the following conditions:

- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principle amount outstanding on specified dates; and
- the business model for managing the financial assets comprises both contractual cash flows collection and the selling of the financial asset.

By default, all other financial assets that do not meet the conditions of amortised cost and FVOCI's measurement condition are subsequently measured at FVTPL.

The Company's investments in equity instruments are measured at FVTPL unless the Company irrevocably elects at inception to measure at FVOCI.

Derecognition

(i) Derecognition of financial liabilities

A liability is derecognised when it is extinguished (ie when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability, is treated as an extinguishment of the existing liability and recognition of a new financial liability.

Notes to the Financial Statements (*continued*)

For the year ended 30 June 2019

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

(i) Derecognition of financial liabilities (*continued*)

Derecognition (continued)

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(ii) Derecognition of financial assets

A financial asset is derecognised when the holder's contractual rights to its cash flows expires, or the asset is transferred in such a way that all the risks and rewards of ownership are substantially transferred.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Impairment

The Company recognises a loss allowance for expected credit losses on:

- financial assets that are measured at fair value through other comprehensive income;
- lease receivables;
- loan commitments that are not measured at fair value through profit or loss; and
- financial guarantee contracts that are not measured at fair value through profit or loss.

Loss allowance is not recognised for:

- financial assets measured at fair value through profit or loss; or
- equity instruments measured at fair value through other comprehensive income.

Expected credit losses are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due and all cash flows expected to be received, all discounted at the original effective interest rate of the financial instrument.

The Company uses the simplified approach to impairment, as applicable under AASB 9. The simplified approach does not require tracking of changes in credit risk at every reporting period, but instead requires the recognition of lifetime expected credit loss at all times.

This approach is applicable to:

- trade receivables that result from transactions that are within the scope of AASB 15, that contain a significant financing component; and
- lease receivables.

In measuring the expected credit loss, a provision matrix for trade receivables is used, taking into consideration various data to get to an expected credit loss, (ie diversity of its customer base, appropriate groupings of its historical loss experience etc.).

Recognition of expected credit losses in financial statements

At each reporting date, the entity recognises the movement in the loss allowance as an impairment gain or loss in the statement of profit or loss and other comprehensive income.

Assets measured at fair value through other comprehensive income are recognised at fair value with changes in fair value recognised in other comprehensive income. The amount in relation to change in credit risk is transferred from other comprehensive income to profit or loss at every reporting period.

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.

Notes to the Financial Statements (*continued*)

For the year ended 30 June 2019

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

l) Leases (*continued*)

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

m) Provisions

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

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

n) Issued capital

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

o) Earnings per share

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

p) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

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

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

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2019

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.

Expected credit loss assessment for Bendigo and Adelaide Bank Limited

The Company's franchise agreement limits the Company's credit exposure to one financial institution, being Bendigo and Adelaide Bank Limited. Due to the reliance on Bendigo and Adelaide Bank Limited the Company has reviewed the credit ratings provided by Standard & Poors, Moody's and Fitch Ratings to determine the level of credit risk exposure of the Company. The most recent credit rating provided by the ratings agencies is as follows: accounting standard has not materially affected any of the amounts recognised in the current period and is not likely to affect future periods.

| Ratings Agency | Long-Term | Short-Term | Outlook |
|-----------------------|------------------|-------------------|----------------|
| Standard & Poor's | BBB+ | A-2 | Stable |
| Fitch Ratings | A- | F2 | Stable |
| Moody's | A3 | P-2 | Stable |

Based on the above risk ratings the Company has classified Bendigo and Adelaide Bank Limited as low risk.

The Company has performed a historical assessment of receivables from Bendigo and Adelaide Bank Limited and found no instances of default. As a result no impairment loss allowance has been made in relation to the Bendigo and Adelaide Bank Limited receivable as at 30 June 2019.

Expected credit loss assessment for other customers

The Company has performed a historical assessment of the revenue collected from other customers and found no instances of default. As a result no impairment loss allowance has been made in relation to other customers as at 30 June 2019.

(iv) Liquidity risk

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

(v) Cash flow and fair value interest rate risk

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

Notes to the Financial Statements (*continued*)

For the year ended 30 June 2019

Note 2. Financial risk management (*continued*)

Expected credit loss assessment for other customers (*continued*)

(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 2019 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 carried-forward tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

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

Notes to the Financial Statements (*continued*)

For the year ended 30 June 2019

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

Taxation (*continued*)

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

Estimation of useful lives of assets

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

Impairment of assets

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

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

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

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

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:

- 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

Note 4. Revenue from ordinary activities

| | 2019 | 2018 |
|--|------------------|------------------|
| | \$ | \$ |
| Operating activities: | | |
| - gross margin | 2,159,752 | 2,152,218 |
| - services commissions | 133,640 | 110,522 |
| - fee income | 126,480 | 131,440 |
| - market development fund | 20,000 | 20,000 |
| Total revenue from operating activities | 2,439,872 | 2,414,180 |
| Non-operating activities: | | |
| - interest received | 22,997 | 19,332 |
| - rental revenue | 56,477 | 60,020 |
| - profit on sale of motor vehicle | - | 1,227 |
| Total revenue from non-operating activities | 79,474 | 80,579 |
| Total revenues from ordinary activities | 2,519,346 | 2,494,759 |

Note 5. Expenses

| | 2019 | 2018 |
|--|---------------|---------------|
| | \$ | \$ |
| Depreciation of non-current assets: | | |
| - plant and equipment | 6,859 | 4,231 |
| - leasehold improvements | 13,722 | 17,782 |
| - buildings | 18,563 | 16,500 |
| - motor vehicle | 7,990 | 4,828 |
| Amortisation of non-current assets: | | |
| - franchise agreement | 4,599 | 4,599 |
| - franchise renewal fee | 20,708 | 20,708 |
| | 72,441 | 68,648 |
| Finance costs: | | |
| - interest paid | 154 | 55 |
| Bad debts | 854 | 516 |

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

Note 6. Income tax expense

| | 2019 | 2018 |
|---|---------------|----------------|
| | \$ | \$ |
| The components of tax expense comprise: | | |
| - Current tax | 77,640 | 115,447 |
| - Movement in deferred tax | 15,137 | 5,809 |
| | 92,777 | 121,256 |
| The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows | | |
| Operating profit | 329,569 | 440,931 |
| Prima facie tax on profit from ordinary activities at 27.5% (2018: 27.5%) | 90,631 | 121,256 |
| Add tax effect of: | | |
| - non-deductible expenses | 2,146 | 4,250 |
| - timing difference expenses | (15,137) | (9,721) |
| - other deductible expenses | - | (338) |
| | 77,640 | 115,447 |
| Movement in deferred tax | 15,137 | 5,809 |
| | 92,777 | 121,256 |

Note 7. Cash and cash equivalents

| | 2019 | 2018 |
|--------------------------|------------------|------------------|
| | \$ | \$ |
| Cash at bank and on hand | 55,749 | 25,927 |
| Term deposits | 1,060,250 | 1,010,250 |
| | 1,115,999 | 1,036,177 |

Note 7(a). Reconciliation to cash flow statement

| | 2019 | 2018 |
|---|------------------|------------------|
| | \$ | \$ |
| 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 | 55,749 | 25,927 |
| Term deposits | 1,060,250 | 1,010,250 |
| | 1,115,999 | 1,036,177 |

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

Note 8. Trade and other receivables

| | 2019 | 2018 |
|--------------------------------|----------------|----------------|
| | \$ | \$ |
| Trade receivables | 181,050 | 194,494 |
| Prepayments | 43,136 | 28,328 |
| Other receivables and accruals | 12,882 | 9,025 |
| | 237,068 | 231,847 |

Note 9. Property, plant and equipment

| | 2019 | 2018 |
|---------------------------------------|------------------|------------------|
| | \$ | \$ |
| Land and buildings | | |
| Freehold land | | |
| At cost 19 | 607,500 | 607,500 |
| Buildings | | |
| At cost | 742,500 | 742,500 |
| Less accumulated depreciation | (18,563) | - |
| 19 | 723,937 | 742,500 |
| Leasehold improvements | | |
| At cost | 506,537 | 506,537 |
| Less accumulated depreciation | (271,376) | (257,654) |
| | 235,161 | 248,883 |
| Plant and equipment | | |
| At cost | 113,328 | 95,694 |
| Less accumulated depreciation | (87,067) | (80,208) |
| | 26,261 | 15,486 |
| Motor Vehicle | | |
| At cost | 39,950 | 39,950 |
| Less accumulated depreciation | (10,508) | (2,518) |
| | 29,442 | 37,432 |
| Total written down amount | 1,622,301 | 1,651,801 |
| Movements in carrying amounts: | | |
| Land | | |
| Carrying amount at beginning | 607,500 | 440,000 |
| Revaluation increment | - | 167,500 |
| Carrying amount at end | 607,500 | 607,500 |

Notes to the Financial Statements (*continued*)

For the year ended 30 June 2019

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

| | 2019 | 2018 |
|----------------------------------|------------------|------------------|
| | \$ | \$ |
| Buildings | | |
| Carrying amount at beginning | 742,500 | 591,250 |
| Revaluation increment | - | 167,750 |
| Disposals | - | - |
| Less: depreciation expense | (18,563) | (16,500) |
| Carrying amount at end | 723,937 | 742,500 |
| Leasehold improvements | | |
| Carrying amount at beginning | 248,883 | 266,665 |
| Additions | - | - |
| Disposals | - | - |
| Less: depreciation expense | (13,722) | (17,782) |
| Carrying amount at end | 235,161 | 248,883 |
| Plant and equipment | | |
| Carrying amount at beginning | 15,486 | 13,528 |
| Additions | 17,634 | 6,189 |
| Disposals | - | - |
| Less: depreciation expense | (6,859) | (4,231) |
| Carrying amount at end | 26,261 | 15,486 |
| Motor Vehicle | | |
| Carrying amount at beginning | 37,432 | 16,538 |
| Additions | - | 39,950 |
| Disposals | - | (14,228) |
| Less: depreciation expense | (7,990) | (4,828) |
| Carrying amount at end | 29,442 | 37,432 |
| Total written down amount | 1,622,301 | 1,651,801 |

The Company's land and buildings at East Ivanhoe were independently valued during June 2018 by Miles Real Estate. The valuation resulted in an increment to the carrying amount of the land and buildings of \$250,000 (\$223,241 net of income tax), recognised as other comprehensive income in the Statement of Profit or Loss and Other Comprehensive Income.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

Note 10. Intangible Assets

| | 2019 \$ | 2018 \$ |
|----------------------------------|----------------|---------------|
| Franchise fee | | |
| At cost | 72,241 | 50,267 |
| Less: accumulated amortisation | (49,715) | (45,116) |
| | 22,526 | 5,151 |
| Establishment fee | | |
| At cost | 70,000 | 70,000 |
| Less: accumulated amortisation | (70,000) | (70,000) |
| | - | - |
| Renewal processing fee | | |
| At cost | 242,377 | 132,513 |
| Less: accumulated amortisation | (129,974) | (109,266) |
| | 112,403 | 23,247 |
| Total written down amount | 134,929 | 28,398 |

Note 11. Tax

| | 2019 \$ | 2018 \$ |
|---|------------------|-----------------|
| Current: | | |
| Income tax payable/(refundable) | (14,140) | 31,699 |
| Non-Current: | | |
| Deferred tax assets | | |
| - accruals | 1,622 | 1,017 |
| - employee provisions | 19,735 | 33,279 |
| | 21,357 | 34,296 |
| Deferred tax liability | | |
| - accruals | 1,206 | 1,474 |
| - property, plant and equipment | 134,032 | 131,566 |
| | 135,238 | 133,040 |
| Net deferred tax liability | (113,881) | (98,744) |
| Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income | 15,137 | 117,819 |

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

Note 12. Trade and other payables

| | 2019 | 2018 |
|------------------------------|---------|--------|
| | \$ | \$ |
| Current: | | |
| Trade creditors | 8,425 | 13,802 |
| Other creditors and accruals | 94,622 | 48,106 |
| | 103,047 | 61,908 |
| Non-Current: | | |
| Trade creditors | 124,729 | - |

Note 13. Borrowings

| | 2019 | 2018 |
|-----------------|-------|-------|
| | \$ | \$ |
| Current: | | |
| Bank loans | 1,320 | 1,066 |

The bank loan is a Bendigo and Adelaide Bank Limited Mortgage Loan facility that expires on 28 April 2023. \$111,897 is available for redraw as at 30 June 2019. Interest is recognised at an average rate of 5.26%.

Note 14. Provisions

| | 2019 | 2018 |
|----------------------------------|--------|---------|
| | \$ | \$ |
| Current: | | |
| Provision for annual leave | 32,633 | 47,538 |
| Provision for long service leave | 30,202 | 64,780 |
| | 62,835 | 112,318 |
| Non-Current: | | |
| Provision for long service leave | 8,927 | 8,695 |

Notes to the Financial Statements (*continued*)

For the year ended 30 June 2019

Note 15. Issued Capital

| | 2019 | 2018 |
|---|------------------|------------------|
| | \$ | \$ |
| East Ivanhoe | | |
| 1,098,386 ordinary shares fully paid (2018: 1,098,386) | 473,010 | 473,010 |
| East Ivanhoe includes bonus shares issued to all existing shareholders on a 1.3:1 basis (620,826 shares) on 17 June 2009. | | |
| Heidelberg | | |
| 1,200,000 ordinary shares fully paid (2018: 1,200,000) | 1,200,000 | 1,200,000 |
| Less: equity raising expenses | (31,845) | (31,845) |
| | 1,641,165 | 1,641,165 |

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®** branches 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).

Notes to the Financial Statements (*continued*)

For the year ended 30 June 2019

Note 15. Issued capital (*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 206. As at the date of this report, the company had 438 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.

The National Stock Exchange (NSX) has advised that in its view the prohibited shareholding provisions are appropriate and equitable but the 'base number test' is not, as a result the base number clause does not operate whilst the Company remains listed on the NSX.

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

Note 16. Reserves

| | 2019 | 2018 |
|---|----------------|----------------|
| | \$ | \$ |
| Balance at the beginning of the financial year | 295,301 | 72,060 |
| Gain on property revaluation | - | 335,250 |
| Deferred income tax attributable to revaluation increment | - | (112,009) |
| Asset revaluation reserve | 295,301 | 295,301 |

The freehold land and buildings were independently valued at 15 June 2018 by Miles Real Estate, a member of the Real Estate Institute of Victoria (REIV). Members of REIV are governed by a code of conduct and are constantly updated on the latest legislative changes.

Note 17. Retained earnings

| | 2019 | 2018 |
|--|----------------|----------------|
| | \$ | \$ |
| Balance at the beginning of the financial year | 697,327 | 515,555 |
| Net profit from ordinary activities after income tax | 236,792 | 319,675 |
| Dividends paid or provided for | (160,887) | (137,903) |
| Balance at the end of the financial year | 773,232 | 697,327 |

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

Note 18. Statement of cash flows

| | 2019 | 2018 |
|--|----------|----------|
| | \$ | \$ |
| Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities | | |
| Profit from ordinary activities after income tax | 236,792 | 319,675 |
| Non cash items: | | |
| - depreciation | 47,134 | 43,341 |
| - amortisation | 25,307 | 25,307 |
| - profit on disposal | - | (1,227) |
| Changes in assets and liabilities: | | |
| - (increase)/decrease in receivables | (5,221) | (22,807) |
| - (increase)/decrease in other assets | (14,140) | 19,075 |
| - increase/(decrease) in payables | 34,284 | (6,670) |
| - increase/(decrease) in provisions | (49,251) | 12,108 |
| - increase/(decrease) in current tax liabilities | (16,562) | (50,367) |
| Net cash flows provided by operating activities | 258,343 | 338,435 |

Note 19. 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 2019 | Level 1 | Level 2 | Level 3 | Total |
|---|----------------|------------------|----------------|------------------|
| | \$ | \$ | \$ | \$ |
| Recurring fair value measurements: | | | | |
| Property, Plant and Equipment | | | | |
| Freehold land | - | 607,500 | - | 607,500 |
| Buildings | - | 723,937 | - | 723,937 |
| | - | 1,331,437 | - | 1,331,437 |
| Total assets at fair value | - | 1,331,437 | - | 1,331,437 |
| At 30 June 2018 | Level 1 | Level 2 | Level 3 | Total |
| | \$ | \$ | \$ | \$ |
| Property, Plant and Equipment | | | | |
| Freehold land | - | 607,500 | - | 607,500 |
| Buildings | - | 742,500 | - | 742,500 |
| | - | 1,350,000 | - | 1,350,000 |
| Total assets at fair value | - | 1,350,000 | - | 1,350,000 |

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

Note 19. Fair value measurement (continued)

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 FVTPL financial assets 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: There were no fair value measurements by the Level 3 fair value hierarchy.

Note 20. Leases

| | 2019 | 2018 |
|---|----------------|----------------|
| | \$ | \$ |
| 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 | 218,592 | 237,268 |
| - between 12 months and 5 years | 341,615 | 175,282 |
| | 560,207 | 412,550 |

The East Ivanhoe branch lease is a non-cancellable lease with a five-year term which ends on 1 April 2021. The lease has one 5 year option to extend the lease. Rent is payable monthly.

The Heidelberg branch lease is a non-cancellable lease with a three-year term which ends on 30 September 2022. The lease has one 3 year option to extend the lease. Rent is payable monthly.

Note 21. Auditor's remuneration

| | 2019 | 2018 |
|---|---------------|--------------|
| | \$ | \$ |
| Amounts received or due and receivable by the Auditor of the Company for: | | |
| - audit and review services | 5,700 | 5,600 |
| - non audit services | 5,040 | 3,720 |
| | 10,740 | 9,320 |

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

Note 22. Director and related party disclosures

| | 2019 | 2018 |
|-------------------------|---------------|---------------|
| | \$ | \$ |
| Directors' Remuneration | | |
| Directors' Remuneration | 33,500 | 35,250 |
| | 33,500 | 35,250 |

Detailed remuneration disclosures are provided in the remuneration report, included as part of the Directors' Report.

| | 2019 | 2018 |
|---|--------|--------|
| Director Shareholdings - Ordinary shares fully paid | 83,610 | 87,560 |

Detailed shareholding disclosures are provided in the remuneration report, included as part of the Directors' Report.

Note 23. Director and related party disclosures

| | 2019 | 2018 |
|--|------|------|
| | \$ | \$ |

a. Dividends paid during the year

| | | |
|---|----------------|----------------|
| Prior year proposed final | | |
| 100% (2018: 100%) franked dividend - 7 cents (2018: 6 cents) per share | 160,887 | 137,903 |
| The tax rate at which dividends have been franked is 27.5% (2018: 27.5%). | | |

b. Franking account balance

| | | |
|---|----------------|----------------|
| Franking credits available for subsequent reporting periods are: | | |
| - franking account balance as at the end of the financial year | 378,937 | 316,485 |
| - franking credits/(debits) that will arise from payment/(refund) of income tax as at the end of the financial year | (14,140) | 27,773 |
| Franking credits available for future financial reporting periods: | 364,797 | 344,258 |
| Net franking credits available | 364,797 | 344,258 |

c. Reconciliation of franking account balance

| | | |
|---|----------------|----------------|
| Reconciliation of franking account balance as at the end of the financial year | | |
| Opening balance | 316,485 | 216,244 |
| - franking credits from the payment of income tax instalments during the year | 119,695 | 90,773 |
| - franking credits/(debits) from the payment/(refund) of income tax following lodgement of income tax returns | 3,783 | 61,776 |
| - franking debits from the payment of fully franked dividends | (61,026) | (52,308) |
| Closing balance | 378,937 | 316,485 |

Notes to the Financial Statements (*continued*)

For the year ended 30 June 2019

Note 24. Earnings per share

| | 2019 | 2018 |
|---|-----------|-----------|
| | \$ | \$ |
| a. Profit attributable to the ordinary equity holders of the company used in calculating earnings per share | 236,792 | 319,675 |
| | Number | Number |
| b. Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 2,298,386 | 2,298,386 |

Note 25. 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 26. 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 27. Segment reporting

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

Note 28. 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

233-235 Lower Heidelberg Road
Ivanhoe East VIC 3079

Principal Places of Business

233-235 Lower Heidelberg Road
Ivanhoe East VIC 3079

164 Burgundy Street
Heidelberg VIC 3084

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

Note 29. Financial Instruments

Financial Instrument Composition and Maturity Analysis

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

| Financial instrument | Floating interest | | Fixed interest rate maturing in | | | | | | Non interest bearing | | Weighted average | |
|------------------------------|-------------------|--------|---------------------------------|-------|-------------------|------|--------------|------|----------------------|---------|------------------|------|
| | | | 1 year or less | | Over 1 to 5 years | | Over 5 years | | | | | |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Financial assets | | | | | | | | | | | | |
| Cash and cash equivalents | 55,349 | 25,527 | | | - | - | - | - | 400 | 400 | 1.97 | 1.80 |
| Receivables | - | - | - | - | - | - | - | - | 181,050 | 194,494 | N/A | N/A |
| Financial liabilities | | | | | | | | | | | | |
| Interest bearing liabilities | - | - | 1,320 | 1,066 | - | - | - | - | - | - | 5.26 | 5.28 |
| Payables | - | - | - | - | - | - | - | - | 8,425 | 13,802 | N/A | N/A |

Net Fair Values

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

Credit Risk

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

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

Interest Rate Risk

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

Notes to the Financial Statements (*continued*)

For the year ended 30 June 2019

Note 29. Financial instruments (*continued*)

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 2019, the effect on profit and equity as a result of changes in interest rate, with all other variables remaining constant would be as follows:

| | 2019 | 2018 |
|---------------------------------|-------------|-------------|
| | \$ | \$ |
| Change in profit/(loss) | | |
| Increase in interest rate by 1% | 11,143 | 10,347 |
| Decrease in interest rate by 1% | (11,143) | (10,347) |
| Change in equity | | |
| Increase in interest rate by 1% | 11,143 | 10,347 |
| Decrease in interest rate by 1% | (11,143) | (10,347) |

Directors' Declaration

In accordance with a resolution of the Directors of Heidelberg District Community Enterprise 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 2019 and of its performance for the financial year ended on that date; and
 - (i) 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.



Russell James Hutchins, Director

Signed on the 26th of August 2019.

Independent Audit Report



Chartered Accountants

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

Independent auditor's report to the members of Heidelberg District Community Enterprise Limited

Report on the audit of the financial report

Our opinion

In our opinion, the accompanying financial report of Heidelberg District Community Enterprise 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 2019 and of its financial performance for the year ended on that date; and
- ii. complying with Australian Accounting Standards.

What we have audited

Heidelberg District Community Enterprise 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 company.

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.

Taxation | Audit | Business Services

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

Independent Audit Report (continued)

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.

Report on the remuneration report

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Heidelberg District Community Enterprise Limited for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

There are no key audit matters to disclose for the 30 June 2019 audit.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report 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: 26 August 2019



Graeme Stewart
Lead Auditor

NSX Report

Share Information

Heidelberg District Community Enterprise Limited is a public company incorporated in Australia and listed on the National Stock Exchange of Australia (NSX).

In accordance with NSX listing rules, the Company provides the following information, current as at 30 June 2019.

Shareholding

The following table shows the number of shareholders by category according to the total number of shares held:

| Number of shares held | Number of shareholders | Number of share held |
|-----------------------|------------------------|----------------------|
| 1 to 1,000 | 98 | 64,895 |
| 1,0001 to 5,000 | 223 | 566,384 |
| 5,001 to 10,000 | 52 | 424,115 |
| 10,001 to 100,000 | 65 | 1,242,992 |
| 100,001 and over | Nil | Nil |
| Total shareholders | 438 | 2,298,386 |

Equity securities

Each of the above shareholders is entitled to 1 vote, irrespective of the number of shares held.

There are no substantial shareholders (holding more than 5% of voting rights) as each shareholder is entitled to 1 vote.

There are 62 shareholders holding less than a marketable parcel of shares (\$500 in value).

There are no restricted securities on issue.

All shares on issue are ordinary shares fully paid to \$1.

There are no unquoted equity securities.

The total number of shareholders is 438.

Total number of shares is 2,298,386.

Eleven largest shareholders

The following table shows the 11 largest shareholders:

| Shareholder | Number of Shares | Percentage of Capital |
|--------------------------------------|------------------|-----------------------|
| Mrs Beryl Inkster Coombe | 83,100 | 3.62% |
| Valley Maintenance Services | 80,000 | 3.48% |
| Gittings Family Superannuation Fund | 60,000 | 2.61% |
| Exardua Superannuation | 48,707 | 2.12% |
| Tessala Pty Ltd Superannuation Fund | 43,275 | 1.88% |
| Mr Abraham Khoury | 32,075 | 1.40% |
| Mrs Jillian Anne Cobb | 25,000 | 1.09% |
| Purser Family Trust | 23,000 | 1.00% |
| Barlow Financial Services Super Fund | 23,000 | 1.00% |
| Drivecor Superannuation Fund | 22,300 | 0.97% |
| Drivecor Pty Ltd | 22,300 | 0.97% |
| Total | 462,757 | 20.14% |

Registered office and principal administrative office

The registered office of the Company, and its principal administrative office, is located at:

233-235 Lower Heidelberg Road
East Ivanhoe Victoria 3079
Telephone: (03) 9497 5133

Security Register

The security register (share register) is kept at:

AFS & Associates
61 Bull Street
Bendigo Victoria 3550
Telephone: (03) 5443 0344

Company Secretary

Russell Hutchins has been the Company Secretary of Heidelberg District Community Enterprise Limited for 7 years. Russell holds degrees in Science and Business and has not previously held the position of Company Secretary on a public company.

Directors' Right to Subscribe for Equity or Debt Securities

No Director holds any right to subscribe to equity or debt securities of the Company.

Annexure 3

There are no material differences between the information in the Company's Annexure 3 and the information in the financial statements in the Annual Report.

Five year comparative table of performance, assets and liabilities

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|-------------------|-----------|-----------|-----------|-----------|-----------|
| | \$ | \$ | \$ | \$ | \$ |
| Revenue | 2,519,346 | 2,494,759 | 2,342,173 | 2,200,696 | 2,182,225 |
| Net profit/(loss) | 236,792 | 319,675 | 301,362 | 70,236 | 116,575 |
| Total Assets | 3,117,548 | 2,948,223 | 2,476,130 | 2,211,095 | 2,266,315 |
| Total Liabilities | 414,739 | 314,430 | 247,350 | 168,758 | 179,295 |
| Total Equity | 2,702,809 | 2,633,793 | 2,228,780 | 2,042,337 | 2,087,020 |

Explanatory notes:

1. Net profit in 2016 declined, due mainly to the Company's commitment to its community programs by increasing its grants and sponsorship allocations, despite general continuing adverse economic conditions.
2. Net profit in 2017 improved markedly on 2016 due mainly to an increase in revenue, rigorous cost management and realising the benefit of grant payments made in 2016.
3. Net profit in 2018 increased over 2017, without the benefit realised in 2017, and was due to increased revenue and continued cost management.
4. Net profit declined in 2019 from 2018 due to increased operating expenses and the Company's commitment to its grants and sponsorships program.

Sponsorships and Grants 2018-2019

| | |
|--|--|
| 10th Ivanhoe Scout Group | Ivanhoe Park Croquet Club Inc |
| 3081 Angels | Ivanhoe Photographic Society |
| Alphington Bowls Club Inc | Lower Plenty Cricket Club |
| Amateur Repertory Company | Lower Plenty Dance Group |
| Araluen Centre | m.a.d. woman Foundation |
| Austin Health | Macleod Cricket Club |
| Banyule City Council - Banyule Festival | Macleod Football Club |
| Banyule City Council - Women in Business | Macleod Junior Football Club |
| Banyule City Council - Youth Festival | Marcellin Old Collegians Football Club |
| Banyule City Soccer Club | North Alphington Cricket Club |
| Banyule Junior Football Club | North Heidelberg Sporting Club |
| Banyule Toy Library Inc. | Olympic Village Exodus Community |
| Bellfield Community Garden | Open House Christian Involvement Centres |
| Big Group Hug | Parkside Junior Football Club |
| Chamberlain Foundation | Parkside Netball Club |
| Eaglemont Tennis Club Inc. | Preston Cricket Club |
| Eaglemont Village Traders Inc. | Rosanna Bowling Club |
| East Ivanhoe Bowling Club | Rosanna Cricket Club |
| Fairfield Primary School | Rosanna Golf Links PS |
| Heidelberg Allstars Inc | Rotary Club of Ivanhoe |
| Heidelberg Football Club Inc | SALT Foundation |
| Heidelberg Girl Guides | Somali Australian Council of Victoria |
| Heidelberg Occasional Care Centre | St Bernadette's Primary School |
| Heidelberg Orchestras Inc | St John's Catholic Tennis Club |
| Heidelberg West Football Club | St John's Riverside Community Garden |
| Inner North East Community Radio Inc. | Viewbank College |
| Ivanhoe Amateur Football Club | Viewbank Tennis Club Inc |
| Ivanhoe Bowling Club Inc | Waterdale Theatre |
| Ivanhoe East Primary School | Yarra Valley Hockey Club Inc |
| Ivanhoe Knights Basketball Club | Youth Foundation 3081 |
| Ivanhoe Mens Social Golf Club | Youth Foundation Parkville |
| Ivanhoe Netball Club | |

Total \$274,262

Community Contributions and Shareholder Dividends

Progressive Community Contributions

| Financial Year | CEF* | Sponsorships | Total | Grants** |
|---------------------------|--------------------|--------------------|--------------------|--------------------|
| 2001/04 | | \$10,000 | \$10,000 | |
| 2004/05 | \$50,000 | \$12,330 | \$62,330 | |
| 2005/06 | \$120,000 | \$41,450 | \$161,450 | \$48,050 |
| 2006/07 | \$100,000 | \$30,400 | \$130,400 | \$70,490 |
| 2007/08 | \$148,000 | \$43,300 | \$191,300 | \$122,751 |
| 2008/09 | \$47,000 | \$46,580 | \$93,580 | \$148,142 |
| 2009/10 | \$75,064 | \$97,110 | \$172,174 | \$113,372 |
| 2010/11 | \$166,054 | \$134,067 | \$300,121 | \$116,896 |
| 2011/12 | \$170,000 | \$168,566 | \$338,566 | \$130,058 |
| 2012/13 | \$165,021 | \$171,077 | \$336,098 | \$160,756 |
| 2013/14 | \$165,000 | \$185,975 | \$350,975 | \$112,150 |
| 2014/15 | \$40,000 | \$154,145 | \$194,145 | \$119,700 |
| 2015/16 | \$180,000 | \$132,816 | \$312,816 | \$89,537 |
| 2016/17 | \$40,000 | \$128,015 | \$168,015 | \$78,067 |
| 2017/18 | \$205,000 | \$141,250 | \$346,250 | \$85,617 |
| 2018/19 | \$200,000 | \$144,495 | \$344,495 | \$129,767 |
| Total Paid to date | \$1,871,139 | \$1,641,576 | \$3,512,715 | \$1,525,353 |

* CEF - Funds committed to the Community Enterprise Foundation by HDCE

** Grants actually distributed by the CEF from contributions made by HDCE

Shareholder Dividends Paid

| Financial Year | Cents per share | Total distribution |
|----------------|-----------------|--------------------|
| 2004/05 | 5 cents | \$23,651 |
| 2005/06 | 10 cents | \$47,756 |
| 2006/07 | 10 cents | \$47,756 |
| 2007/08 | 13 cents | \$62,083 |
| 2008/09 | 13 cents | \$62,083 |
| 2009/10 | 2 cents | \$45,967 |
| 2010/11 | 3 cents | \$68,952 |
| 2011/12 | 5 cents | \$114,919 |
| 2012/13 | 6 cents | \$137,903 |
| 2013/14 | 6 cents | \$137,903 |
| 2014/15 | 6 cents | \$137,903 |
| 2015/16 | 5 cents | \$114,919 |
| 2016/17 | 5 cents | \$114,919 |
| 2017/18 | 6 cents | \$137,903 |
| 2018/19 | 7 cents | \$160,887 |
| | | \$1,415,504 |

Corporate Governance Statement

In the 2003 HIH Royal Commission into the failure and collapse of HIH Insurance, considered to be the largest corporate collapse in Australia's history, Justice Owen described "corporate governance" as "the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled within corporations. It encompasses the mechanisms by which companies, and those in control, are held to account."

The Board of Directors and management of Heidelberg District Community Enterprise are committed to ensuring that the Company is not only well managed, but also operates with the standard of ethics expected of a community focussed organisation. As such, the Board and management are committed to both the principles of good corporate governance and its practical implementation.

The Board of Directors is ultimately responsible for governance of Heidelberg District Community Enterprise and ensuring that Directors, management and staff comply with the Company's ethical and operational standards. General community expectations, as well as regulation, have resulted in an increased level of scrutiny of boards and corporate governance, especially companies providing financial services, and Heidelberg District Community Enterprise is no exception.

Corporate Practice and Policies

The Company's corporate governance practices and policies have been developed by taking into account applicable requirements and recommendations in such things as:

- Corporations Act 2001 (Cth)
- National Stock Exchange Listing Rules
- Bendigo and Adelaide Bank's Franchise Agreement
- Australian Standard AS 8000 – Good Corporate Governance
- The Australian Securities Exchange (ASX) Principles and Recommendations.

The ASX publishes 8 Principles and Recommendations that apply to all entities listed on the ASX. ASX states however, that these Principles and Recommendations reflect a contemporary view of appropriate corporate governance standards, and that other bodies may find them helpful in formulating their governance rules or practices. Although not listed on the ASX, HDCE nevertheless subscribes to these ASX principles. The 8 Principles are:

1. Lay solid foundations for management and oversight: An entity should clearly delineate the respective roles and responsibilities of its board and management and regularly review their performance.
2. Structure the board to be effective and add value: The board of an entity should be of an appropriate size and collectively have the skills, commitment and knowledge of the entity and the industry in which it operates, to enable it to discharge its duties effectively and to add value.
3. Instil a culture of acting lawfully, ethically and responsibly: An entity should instil and continually reinforce a culture across the organisation of acting lawfully, ethically and responsibly.
4. Safeguard the integrity of corporate reports: An entity should have appropriate processes to verify the integrity of its corporate reports.
5. Make timely and balanced disclosure: An entity should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.
6. Respect the rights of security holders: An entity should provide its security holders with appropriate information and facilities to allow them to exercise their rights as security holders effectively.
7. Recognise and manage risk: An entity should establish a sound risk management framework and periodically review the effectiveness of that framework.
8. Remunerate fairly and responsibly: An entity should pay director remuneration sufficient to attract and retain high quality directors and design its executive remuneration to attract, retain and motivate high quality senior executives and to align their interests with the creation of value for security holders and with the entity's values and risk appetite. Note: HDCE adopts this Principle in regard to management but pays its Directors only modest remuneration as high quality directors are attracted to Community Banking by factors other than remuneration.

Accordingly, the Board has a Code of Conduct and a set of policies and procedures to ensure that high ethical and operational standards are maintained by the Board, management and staff of the Company. The Board is also committed to providing its shareholders with appropriate information regarding any matter that may materially affect the operation of the Company or more generally considered by the Board to be in shareholders' best interests. The Company encourages its shareholders to attend and actively participate in the Annual General Meeting and any Extraordinary General Meetings.

Corporate Governance Statement (continued)

The Board and Board Committees

The Board is ultimately responsible for ensuring integrity and serving the local Heidelberg district community, while at the same time, protecting shareholder interests and Bendigo and Adelaide Bank's reputation. At the date of this report, the Board consisted of 8 independent non-executive Directors. An independent non-executive Director is a Director that is independent of management and free of any business or other relationship that could materially interfere with the exercise of unfettered and independent judgment. Directors are required to attend all Board meetings unless prevented by other circumstances. To assist the Board in managing the business and achieve its objective of maintaining the highest standards of corporate governance, the Board delegates certain activities to Board Committees. Each of the Board Committees is composed exclusively of Directors. The Board Committees and their major objectives are:

Audit and Governance Committee

To ensure the accuracy of the Company's financial records, to monitor and mitigate risks facing the Company, and to ensure that the Company complies with both its fiduciary responsibilities and its franchise obligations;

Marketing and Business Development Committee

To promote the Company within the Community and maximise the effectiveness of the Company's investment into sponsorship and marketing activities, and to actively provide business development opportunities for the two branches to promote business growth;

Human Resources Committee

To monitor and maintain all aspects of Board / staff relations; and

Property Committee

To deal with all matters relating to the leased branch properties and the tenanted investment properties.

The Board meets monthly, together with management and Bendigo and Adelaide Bank's regional management, to review the performance of the business, assess its involvement in and support for Community activities, review the activities of the Board Committees, monitor compliance with applicable legislation and other obligations, and discuss any other relevant matters. Additional meetings are convened as required to address specific matters. The Board also conducts an annual planning workshop to review the Company's strategy and objectives and put in place action plans to achieve these objectives. The Board Committees meet monthly, bi-monthly or as required to review their respective functions.

Appointment and removal of the management of the Company is a function of the Board as a whole. Certain powers have been delegated by the Board to management to allow the Company to carry on its business in the most efficient manner. These delegated authorities are approved by the Board and include certain financial and non-financial matters. Management provides regular information to the Board in a concise and timely manner to enable the Board to review the operations of the Company and make informed decisions and discharge its duties. Where necessary, the Board will request more information.

The Board reviews the Company's operations and performance with Bendigo and Adelaide Bank at a minimum monthly, or more frequently if required, to ensure the Company's operations and practices align with those of Bendigo and Adelaide Bank and the **Community Bank®** network.

The responsibilities of the Board include:

- Preparing the Company's strategy and objectives
- Supporting the interests of the local Community
- Promoting and developing the Company's business interests
- Reviewing and approving the budgets and business plans prepared by management and Bendigo and Adelaide Bank
- Reviewing the performance of the Company against objectives
- Liaising with and reporting to Bendigo and Adelaide Bank
- Ensuring that grants and sponsorships are appropriately managed
- Ensuring the effectiveness of the governance of the Company
- Ensuring the adequacy of the internal controls, procedures and policies of the Company
- Reporting to shareholders and other stakeholders.

Notes

Notes

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Heidelberg **Community Bank**[®] Branch
164 Burgundy Street, Heidelberg VIC 3084
Phone: 9457 2055 Fax: 9458 3646

East Ivanhoe **Community Bank**[®] Branch
233 - 235 Lower Heidelberg Road, East Ivanhoe VIC 3079
Phone: 9497 5133 Fax: 9497 5233

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