Annual Report 2017

Huon Valley Financial Services Limited

ABN 34 101 469 854

Geeveston **Community Bank**® Branch
Dover **Community Bank**® Branch
Huonville **Community Bank**® Branch
Cygnet & District **Community Bank**® Branch

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Chairman's report

For year ending 30 June 2017

I commenced my report last year by noting that the most satisfying highlight was achieving funds under management of over $264 million. Now, just one year later, our amazing staff have increased that amount to $301 million. There seems to be no limit to what these dedicated, professional and committed folks can achieve.

There is a critically important part of the business of the **Community Bank**® model in the Huon Valley that, I believe, often does not get the credit it deserves. That is about face-to-face banking and interaction with our customers, the Huon Valley community. At no other bank can you ring your local branch and speak to the staff or the Manager. At no other bank is the local Branch Manager's mobile phone number publicly available.

As somebody who was born in the first half of the 20th century and thus far removed from the digital age, I can understand many of our customers wanting to speak across the counter to a Customer Service Officer and to do business face-to-face with one of our Managers. At the same time though, I 'get' the needs of our younger customers and their understanding of doing as much business as possible on line. No other bank enables its customers to have such a choice.

We actively encourage face-to-face banking and this encouragement is reflected in the ever-increasing number of over-the-counter transactions we record. We love to meet our customers and talk with them and understand their banking needs. For it is our customers that make the **Community Bank**® model what it is. Without them and their business, we would not be able to generate profits that are then returned to our community.

Face-to-face, personal banking only works with great people behind the counter. And we have the best. Without these wonderful people providing the quality service that they do, the **Community Bank**® model would not work. Word-of-mouth recommendations are our best form of advertising and these recommendations continue to grow.

The importance of the role of Directors of our company cannot be overstated. Their commitment, on a voluntary basis, is outstanding. During the year we lost one of our longest serving Directors, Nyal Merdivenci who has spread his wings into other fields of endeavour and we wish him well. Nyal was a corner stone of the Board for many years and his contributions will be sadly missed. Our Company Secretary, Karen Cooper, also left us during the year, however we have been extremely fortunate to secure the services of David Walker as our new Company Secretary. Welcome David.

It is an honour and a privilege to be the Chairman of such an exceptional organisation and to be part of the wonderful family that is Huon Valley Financial Services Limited and our four branches at Geeveston, Dover, Huonville and Cygnet.

Michael Lynch
Chairman

Managers' report

For year ending 30 June 2017

We have now completed our 14th full year of operation and we are extremely pleased to report that our business has continued to grow, with total business as at 30 June 2017 now standing at $300.975 million, with 10,322 accounts opened. This represents growth of $36.927 million (13.985%) and 870 accounts (9.205%) during the past 12 months.

Our deposits totaled $113.732 million, our Lending Portfolio $179.121million and Other Business $8.122 million, with a further $6.522 million in loans pending settlement.

These results only confirm the support of the community for 'their' bank, which in turn enables our **Community Bank®** company to return profits back into the community for the benefit of all.

The continued positive manner in which our bank has been accepted and supported by people from both within and outside our immediate area has been beyond our expectations (and continues to amaze us) and only goes to show that there still is a need for good old fashioned, face-to-face banking services where you can build a relationship with 'your' bank.

We continue to generate regular monthly profits which are being distributed back into the community in many shapes and forms and it is this distribution of profits back to the community that gives us (the staff) a great deal of pride and satisfaction in the role that we play within 'your' bank.

The above results have not been achieved without a great deal of hard work, passion and dedication by a great team of staff and as such we would like to acknowledge and thank the following staff for their efforts: Sharee Burgess, Cathy Thomson, Cate Swan, Michelle Doyle, Kerrie-Lyn O'Neill, Kelly Hankin, Narelle Gane, Chris Wood, Tamara Jones, Claudia Pulko, Phil Woolley, Ellice Direen, Sophie Brouwer and Fran Duggan for their commitment and on-going support.

Thanks also to the Board of Directors for their support and guidance over the past 12 months. They are a passionate group of people who give freely of their own time, doing a thankless job for the benefit of the community. It is always an enjoyable experience to work with you as we continue to grow and expand the business together.

To our 'Team' at Regional Office: Russ, Rob, Stewart, Jon, Toni, Kim and Janelle, thank you for your continued support once again, it truly is a pleasure to work with you. It is your contribution to the success of our **Community Bank®** branches which ensures that the value of our partnership with Bendigo and Adelaide Bank Limited is maximised.

Finally, we wish to thank all of our customers and shareholders for their support and we trust that our personal service and commitment to the community will ensure the continued future success of the Geeveston, Dover, Huonville and Cygnet **Community Bank®** branches.

Tony Coulson
Senior Manager

Colleen Shield
Branch Manager
Huonville

Jordan Lovell
Branch Manager
Cygnet

Rosie Buckpitt
Branch Manager
Geeveston & Dover

Directors' report

For the financial year ended 30 June 2017

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

Directors

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

Michael Anthony Lynch
Chairman
Occupation: Small Business Owner
Qualifications, experience and expertise: Retired Naval Officer, previously General Manager of an electronics manufacturing plant and General Manager of Tasmanian University Research Company, Head of Office: Tasmanian Greens, Director: Tasmanian Conservation Trust, Chairperson: Tasmanian Heritage Council, President: Tasmanian Conservation Trust.
Special responsibilities: Chairman, Governance
Interest in shares: Nil

Janet Ann Storan
Deputy Chairman
Occupation: Retired
Qualifications, experience and expertise: Over 40 year's administration experience including accounting and general administration. Previous employment includes managing the Flight Crew Licensing section for the Civil Aviation Safety Authority in Brisbane, and general accounting in an advertising agency. Responsible for the setting up and administration for a period of 10 years of a $1 million Welfare Fund for the benefit of local government employees in Tasmania. Experience as a Leader in Scouting and Guiding organisations for over 15 years and Secretary of the Cygnet Football Club for 3 years and a member of the Cygnet RSL Women's auxiliary for 21 years. Chairman of the Steering Committee to establish the Cygnet **Community Bank**® Branch.
Special responsibilities: Grants and Marketing Committee, Deputy Chairman
Interest in shares: 3,000

Brent Andrew Hardy
Treasurer
Occupation: General Manager
Qualifications, experience and expertise: Brent has been the Divisional Manager and is presently the General manager of Duggans Pty Ltd. Previously Aust/Asian Logistics Manager for Erico Pty Ltd and director of the National Precast Association Australia.
Former directorships: National Precast Association of Australia
Special responsibilities: Treasurer
Interest in shares: Nil

Jillian Kay Griggs
Director
Occupation: Retired
Qualifications, experience and expertise: Staff Representative on the Board of Huon District Hospital for 6 years, volunteer on kiosk of Huon Eldercare for 11 years. Secretary of Huonville Football Club Ladies Committee for 5 years. Previously on the Board of HVFS for over 2 years before being re-elected in 2010.
Special responsibilities: Grants and Marketing Committee
Interest in shares: 6,000

Directors (continued)

John Patrick Synnott

Director

Occupation: Electrical Contracting, Building & Construction Industry

Qualifications, experience and expertise: Educated to High Schools Certificate level, also the Tasmanian Technical College with an apprenticeship and accreditation as an A Grade Electrical Mechanic. Worked in the Electrical Contracting Industry for 33 years as a supervisor, estimator and general administration, also State Divisional Manager for a Tasmanian electrical contracting company for 7 years responsible for financial budgets, staff engagement and apprenticeship employment & training. Contracts administrator and domestic building company for 7 years, participation with Engineers, Architects, Building Surveyor, Land Surveyors, Soil Scientists & local Government Planning requirements for design assessment criteria, preparation of building contracts for clients in conjunction with final building costs also land pre-purchase inspection, assessment and evaluation. Participation with various committees over many years both as a committee member also Vice President, for both the Cygnet Football Club & Cygnet Tennis Club; an active member of the Port Cygnet Sailing Club. Currently involved with the Cygnet Football Club as an adviser, sub-committee member and player Tribunal Advocate also club match manager. Past Board Member St James Catholic College in association with the Tasmanian Catholic Education Office. Was an active member on the steering committee to establish the Cygnet **Community Bank**® Branch.

Special responsibilities: Community Liaison Officer, Grants and Marketing Committee Chairman

Interest in shares: 1,000

David Allen Brereton

Director

Occupation: International Consultant

Qualifications, experience and expertise: Five years in the banking sector, followed by 34 years employed in various Commonwealth Government agencies, including Department of Social Security, Australian Antarctic Division, Centrelink and Australian Bureau of Statistics. Retired from the public sector in 2012. Since 2013, engaged as an International Consultant for the Food and Agriculture Organisation of the United Nations (FAO), working in the Asia-Pacific region. Currently a community member on the Tasmanian Board of the Medical Board of Australia. Involved in various local community and sporting groups/clubs, including several executive positions. Past school board member of St. James Catholic College, Cygnet.

Special responsibilities: Chair of Tasmanian **Community Bank**® Collaborative Marketing Cluster

Interest in shares: 20,000

Christine Elizabeth Walker

Director (Appointed 25 July 2016)

Occupation: Semi Retired Psychotherapist

Qualifications, experience and expertise: Bachelor of Counselling & Human Change (Psychotherapist). Over 30 years administration, franchising and small business experience including Joint Managing Director of Franchise Consulting Practice and Sole Director small retail outlet. Eleven years experience in counselling and psychotherapy including private practice, Clinical Pastoral Care Counselling, and several volunteer counselling appointments for various not for profit organisations. Currently a volunteer for The Salvation Army in the capacity of Counsellor, Drop In Centre Facilitator, Head Facilitator for Girl's Mentoring Group, Support Worker and Welfare Assistant to Rural Chaplain. Specialising in Grief and Loss.

Special responsibilities: Nil

Interest in shares: Nil

Simon Peter Burgess

Director (Resigned 19 September 2017)

Occupation: Agriculture (organic farming)

Qualifications, experience and expertise: Self employed business owner, who has been on the board for 13 years.

Special responsibilities: Nil

Interest in shares: 11,820

Directors (continued)

Laura Kate Shield

Director (Appointed 29 August 2016 - Resigned 20 August 2017)

Occupation: Teacher

Qualifications, experience and expertise: Bachelor of Arts and Master of Teaching degrees. Previously in the role of Community Relations Coordinator at Huon Aquaculture which coordinated the Huon's Helping Hand Community Grants program twice yearly. Currently on the Huon's Helping Hand Community Grants decision making panel. Previously involved with the Huon 26Ten Steering Committee. Volunteered at a number of schools to assist students with their reading and literacy skills.

Special responsibilities: Nil

Interest in shares: Nil

Nyal Nizazi Merdivenci

Director (Resigned 26 March 2017)

Occupation: Property Marketing Consultant

Qualifications, experience and expertise: Former local business owner, qualified property consultant and involved in local community groups.

Special responsibilities: Nil

Interest in shares: 2,700

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 David Walker. David is a qualified accountant and has previously been a director, company secretary and chief financial officer of a large public group of companies. David was appointed to the position of company secretary on 1 January 2017, replacing Karen Cooper.

Principal Activities

The principal activities of the company during the financial year were facilitating **Community Bank®** services under management rights to operate franchised branches of Bendigo and Adelaide Bank Limited.

There have been no significant changes in the nature of these activities during the year.

Operating results

Operations have continued to perform in line with expectations.

Year ended 30 June 2017 $	Year ended 30 June 2016 $
41,246	(36,667)

Dividends

	Year ended 30 June 2017	
	Cents	$
Dividends paid in the year	2	38,280

Directors' report (continued)

Significant changes in the state of affairs

In July 2016 the Huon Valley was flooded as a result of extreme weather around Tasmania. The Huonville branch was severely damaged by the flood resulting in significant repair and maintenance costs. These costs totalled $63,479 as outlined in the Statement of Profit or Loss and Other Comprehensive Income.

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

Events since the end of the financial year

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

Likely developments

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

Environmental regulation

The company is not subject to any significant environmental regulation.

Directors' benefits

No director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a director, a firm which a director is a member or an entity in which a director has a substantial financial interest except as disclosed in note 23 to the financial statements. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the company's accounts, or the fixed salary of a full-time employee of the company, controlled entity or related body corporate.

Indemnification and insurance of directors and officers

The company has indemnified all directors, officers and the managers in respect of liabilities to other persons (other than the company or related body corporate) that may arise from their position as directors, officers or managers 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		Grants & Marketing Committee Meetings	
	Eligible	**Attended**	**Eligible**	**Attended**
Michael Anthony Lynch	11	9	-	-
Janet Ann Storan	11	11	12	10
Brent Andrew Hardy	11	9	-	-
Jillian Kay Griggs	11	9	12	12
John Patrick Synnott	11	10	12	11
David Allen Brereton	11	10	-	-

Directors' meetings (continued)

	Board Meetings		Grants & Marketing Committee Meetings	
	Eligible	Attended	Eligible	Attended
Christine Elizabeth Walker (Appointed 25 July 2016)	11	8	-	-
Simon Peter Burgess (Resigned 19 September 2017)	11	6	-	-
Laura Kate Shield (Appointed 29 August 2016 - Resigned 20 August 2017)	10	7	-	-
Nyal Nizazi Merdivinci (Resigned 26 March 2017)	7	6	-	-

Proceedings on behalf of the company

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

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

Non audit services

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

The board of directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

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

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 9.

Signed in accordance with a resolution of the board of directors at Huonville, Tasmania on 25 September 2017.

Michael Anthony Lynch,
Chairman

Auditor's independence declaration

Partners in success
Chartered Accountants
61 Bull Street, Bendigo 3550
PO Box 454, Bendigo 3552
03 5443 0344
afsbendigo.com.au

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

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

i) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550
Dated: 25 September 2017

David Hutchings
Lead Auditor

Taxation | Audit | Business Services

Financial statements

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

	Notes	2017 $	2016 $
Revenue from ordinary activities	4	2,313,345	2,149,169
Employee benefits expense		(1,344,878)	(1,249,401)
Charitable donations, sponsorship, advertising and promotion		(177,911)	(269,635)
Occupancy and associated costs		(174,801)	(181,792)
Systems costs		(104,653)	(105,607)
Depreciation and amortisation expense	5	(88,539)	(89,794)
Finance costs	5	(351)	(396)
General administration expenses		(300,163)	(297,515)
Flood damage costs		(63,479)	-
Profit/(loss) before income tax		**58,570**	**(44,971)**
Income tax (expense)/credit	6	(17,324)	8,304
Profit/(loss) after income tax		**41,246**	**(36,667)**
Total comprehensive income for the year attributable to the ordinary shareholders of the company:		**41,246**	**(36,667)**
Earnings per share		**¢**	**¢**
Basic earnings per share	24	2.15	(1.92)

The accompanying notes form part of these financial statements.

Balance Sheet
as at 30 June 2017

	Notes	2017 $	2016 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	382,418	235,031
Trade and other receivables	8	226,479	231,707
Current tax asset	12	-	426
Total Current Assets		**608,897**	**467,164**
Non-Current Assets			
Trade and other receivables	8	-	25,000
Property, plant and equipment	9	422,640	457,006
Financial assets	10	2,000	2,000
Intangible assets	11	81,728	122,822
Deferred tax asset	12	51,988	61,125
Total Non-Current Assets		**558,356**	**667,953**
Total Assets		**1,167,253**	**1,135,117**
LIABILITIES			
Current Liabilities			
Trade and other payables	13	131,227	115,496
Current tax liabilities	12	8,186	-
Borrowings	14	3,481	17,262
Provisions	15	161,603	147,022
Total Current Liabilities		**304,497**	**279,780**
Non-Current Liabilities			
Provisions	15	21,996	17,543
Total Non-Current Liabilities		**21,996**	**17,543**
Total Liabilities		**326,493**	**297,323**
Net Assets		**840,760**	**837,794**
Equity			
Issued capital	16	1,166,334	1,166,334
Accumulated losses	17	(325,574)	(328,540)
Total Equity		**840,760**	**837,794**

The accompanying notes form part of these financial statements.

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

	Issued capital $	Accumulated losses $	Total equity $
Balance at 1 July 2015	**1,166,334**	**(253,593)**	**912,741**
Total comprehensive income for the year	-	(36,667)	(36,667)
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(38,280)	(38,280)
Balance at 30 June 2016	**1,166,334**	**(328,540)**	**837,794**
Balance at 1 July 2016	**1,166,334**	**(328,540)**	**837,794**
Total comprehensive income for the year	-	41,246	41,246
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(38,280)	(38,280)
Balance at 30 June 2017	**1,166,334**	**(325,574)**	**840,760**

The accompanying notes form part of these financial statements.

Statement of Cash Flows
for the year ended 30 June 2017

	Notes	2017 $	2016 $
Cash flows from operating activities			
Receipts from customers		2,517,492	2,340,363
Payments to suppliers and employees		(2,357,591)	(2,315,611)
Interest received		2,551	5,433
Interest paid		(351)	(396)
Income taxes received		426	8,574
Net cash provided by operating activities	**18**	**162,527**	**38,363**
Cash flows from investing activities			
Payments for property, plant and equipment		(13,079)	(2,320)
Payments for intangible assets		-	(67,782)
Loans to other parties		-	(50,000)
Repayment of loans to other parties		50,000	-
Net cash provided by/(used in) investing activities		**36,921**	**(120,102)**
Cash flows from financing activities			
Repayment of borrowings		(13,781)	(16,540)
Dividends paid		(38,280)	(38,280)
Net cash used in financing activities		**(52,061)**	**(54,820)**
Net increase/(decrease) in cash held		**147,387**	**(136,559)**
Cash and cash equivalents at the beginning of the financial year		235,031	371,590
Cash and cash equivalents at the end of the financial year	**7(a)**	**382,418**	**235,031**

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2017

Note 1. Summary of significant accounting policies

a) Basis of preparation

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

<u>Compliance with IFRS</u>

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

<u>Critical accounting estimates</u>

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

<u>Historical cost convention</u>

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.

<u>Comparative figures</u>

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

<u>Application of new and amended accounting standards</u>

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

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

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

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

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

<u>Economic dependency - Bendigo and Adelaide Bank Limited</u>

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank®** branches at Geeveston, Dover, Huonville and Cygnet, Tasmania.

Note 1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Economic dependency - Bendigo and Adelaide Bank Limited (continued)

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.

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

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

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

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

- design, layout and fit out of the **Community Bank®** branches
- training for the branch manager and other employees in banking, management systems and interface protocol
- methods and procedures for the sale of products and provision of services
- security and cash logistic controls
- calculation of company revenue and payment of many operating and administrative expenses
- the formulation and implementation of advertising and promotional programs
- sales techniques and proper customer relations.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

b) Revenue

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the company and any specific criteria have been met. Interest and fee revenue is recognised when earned. The gain or loss on disposal of property, plant and equipment is recognised on a net basis and is classified as income rather than revenue. All revenue is stated net of the amount of Goods and Services Tax (GST).

Revenue calculation

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

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.

Note 1. Summary of significant accounting policies (continued)

b) Revenue (continued)

Core banking products

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

Margin

Margin is arrived at through the following calculation:

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

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

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

Commission

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

Fee income

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

Discretionary financial contributions

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

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

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

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

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.

Note 1. Summary of significant accounting policies (continued)

b) Revenue (continued)

Ability to change financial return (continued)

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

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

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

Monitoring and changing financial return

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

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

c) Income tax

Current tax

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

Deferred tax

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

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

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

Note 1. Summary of significant accounting policies (continued)

c) Income tax (continued)

Deferred tax (continued)

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

Current and deferred tax for the period

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

d) Employee entitlements

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

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

e) Cash and cash equivalents

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

f) Trade receivables and payables

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

g) Property, plant and equipment

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

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

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

- leasehold improvements 40 years
- plant and equipment 2.5 - 40 years
- motor vehicles 8 years

Note 1. Summary of significant accounting policies (continued)

h) Intangibles

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

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

i) Payment terms

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

j) Borrowings

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

k) Financial instruments

Recognition and initial measurement

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

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

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset.

Classification and subsequent measurement

(i) Loans and receivables

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

(ii) Held-to-maturity investments

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

(iii) Available-for-sale financial assets

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

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

(iv) Financial liabilities

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

Note 1. Summary of significant accounting policies (continued)

k) Financial instruments (continued)

Impairment

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

l) Leases

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

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

m) Provisions

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

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

n) Contributed equity

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

o) Earnings per share

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

p) Goods and Services Tax

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

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

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

Note 2. Financial risk management

The company's activities expose it to a limited variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the entity. The entity does not use derivative instruments.

Risk management is carried out directly by the board of directors.

(i) Market risk

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

(ii) Price risk

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

(iii) Credit risk

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

(iv) Liquidity risk

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

(v) Cash flow and fair value interest rate risk

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

(vi) Capital management

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

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

The distribution limit is the greater of:

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

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

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

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

Note 3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

<u>Taxation</u>

Judgement is required in assessing whether deferred tax assets and certain tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

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

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

<u>Estimation of useful lives of assets</u>

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.

<u>Impairment of assets</u>

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

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

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

Note 3. Critical accounting estimates and judgements (continued)

Impairment of assets (continued)

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

	2017 $	2016 $

Note 4. Revenue from ordinary activities

Operating activities:		
- gross margin	1,827,443	1,427,913
- services commissions	157,273	340,804
- fee income	228,161	234,602
- market development fund	97,917	140,417
Total revenue from operating activities	**2,310,794**	**2,143,736**
Non-operating activities:		
- interest received	2,551	5,433
Total revenue from non-operating activities	**2,551**	**5,433**
Total revenues from ordinary activities	**2,313,345**	**2,149,169**

Note 5. Expenses

Depreciation of non-current assets:		
- plant and equipment	16,353	17,725
- leasehold improvements	26,436	25,505
- motor vehicle	4,656	4,656
Amortisation of non-current assets:		
- franchise agreement	6,567	6,307
- establishment fee	25,297	28,000
- franchise renewal fee	9,230	7,601
	88,539	**89,794**
Finance costs:		
- interest paid	**351**	**396**
Bad debts	**376**	**327**
Loss on disposal of asset	**-**	**1,900**

	2017 $	2016 $

Note 6. Income tax expense/(credit)

	2017 $	2016 $
The components of tax expense/(credit) comprise:		
- Current tax	8,186	-
- Future income tax benefit attributable to losses	-	(1,595)
- Movement in deferred tax	(1,311)	(343)
- Adjustment to deferred tax to reflect change to tax rate in future periods	-	2,223
- Recoupment of prior year tax losses	10,449	-
- Over provision of tax in the prior period	-	(8,589)
	17,324	**(8,304)**
The prima facie tax on profit/(loss) from ordinary activities before income tax is reconciled to the income tax expense/(credit) as follows		
Operating profit/(loss)	58,570	(44,971)
Prima facie tax on profit/(loss) from ordinary activities at 27.5% (2016: 28.5%)	16,107	(12,817)
Add tax effect of:		
- non-deductible expenses	5,108	6,863
- timing difference expenses	1,311	8,392
- other deductible expenses	(3,891)	(4,033)
	18,635	**(1,595)**
Movement in deferred tax	(1,311)	(343)
Adjustment to deferred tax to reflect change of tax rate in future periods	-	2,223
Over provision of income tax in the prior year	-	(8,589)
	17,324	**(8,304)**

Note 7. Cash and cash equivalents

	2017 $	2016 $
Cash at bank and on hand	382,418	235,031
	382,418	**235,031**
Note 7.(a) Reconciliation to cash flow statement		
The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year as follows:		
Cash at bank and on hand	382,418	235,031
	382,418	**235,031**

	2017 $	2016 $

Note 8. Trade and other receivables

	2017 $	2016 $
Current:		
Trade receivables	195,707	179,820
Prepayments	30,772	26,887
Other receivables and accruals	-	25,000
	226,479	**231,707**
Non-Current:		
Other receivables and accruals	-	25,000
	-	**25,000**

Note 9. Property, plant and equipment

	2017 $	2016 $
Leasehold improvements (Geeveston/Dover)		
At cost	162,999	159,362
Less accumulated depreciation	(66,386)	(59,883)
	96,613	**99,479**
Plant and equipment (Geeveston/Dover)		
At cost	117,518	117,518
Less accumulated depreciation	(113,920)	(107,316)
	3,598	**10,202**
Leasehold improvements (Huonville)		
At cost	156,654	154,836
Less accumulated depreciation	(52,734)	(44,429)
	103,920	**110,407**
Plant and equipment (Huonville)		
At cost	46,147	40,819
Less accumulated depreciation	(29,370)	(26,357)
	16,777	**14,462**
Leasehold improvements (Boardroom Huonville)		
At cost	36,735	36,735
Less accumulated depreciation	(5,993)	(4,734)
	30,742	**32,001**
Plant and equipment (Boardroom Huonville)		
At cost	15,180	12,884
Less accumulated depreciation	(13,068)	(10,889)
	2,112	**1,995**

	2017 $	2016 $
Note 9. Property, plant and equipment (continued)		
Leasehold improvements (Cygnet)		
At cost	165,514	165,514
Less accumulated depreciation	(32,771)	(22,402)
	132,743	**143,112**
Plant and equipment (Cygnet)		
At cost	41,328	41,328
Less accumulated depreciation	(18,589)	(14,032)
	22,739	**27,296**
Motor vehicles		
At cost	37,250	37,250
Less accumulated depreciation	(23,854)	(19,198)
	13,396	**18,052**
Total written down amount	**422,640**	**457,006**
Movements in carrying amounts:		
Leasehold improvements (Geeveston/Dover)		
Carrying amount at beginning	99,479	105,369
Additions	3,637	-
Disposals	-	-
Less: depreciation expense	(6,503)	(5,890)
Carrying amount at end	**96,613**	**99,479**
Plant and equipment (Geeveston/Dover)		
Carrying amount at beginning	10,202	22,210
Additions	-	-
Transfers	-	(4,255)
Less: depreciation expense	(6,604)	(7,753)
Carrying amount at end	**3,598**	**10,202**
Leasehold improvements (Huonville)		
Carrying amount at beginning	110,407	118,392
Additions	1,818	-
Disposals	-	-
Less: depreciation expense	(8,305)	(7,985)
Carrying amount at end	**103,920**	**110,407**

	2017 $	2016 $
Note 9. Property, plant and equipment (continued)		
Plant and equipment (Huonville)		
Carrying amount at beginning	14,462	16,201
Additions	5,328	2,320
Transfers	-	(1,582)
Less: depreciation expense	(3,013)	(2,477)
Carrying amount at end	**16,777**	**14,462**
Leasehold improvements (Boardroom Huonville)		
Carrying amount at beginning	32,001	33,260
Additions	-	-
Disposals	-	-
Less: depreciation expense	(1,259)	(1,259)
Carrying amount at end	**30,742**	**32,001**
Plant and equipment (Boardroom Huonville)		
Carrying amount at beginning	1,995	930
Additions	2,296	-
Transfers	-	5,742
Disposals	-	(1,900)
Less: depreciation expense	(2,179)	(2,777)
Carrying amount at end	**2,112**	**1,995**
Leasehold improvements (Cygnet)		
Carrying amount at beginning	143,112	153,483
Additions	-	-
Disposals	-	-
Less: depreciation expense	(10,369)	(10,371)
Carrying amount at end	**132,743**	**143,112**
Plant and equipment (Cygnet)		
Carrying amount at beginning	27,296	31,914
Additions	-	-
Transfers	-	95
Less: depreciation expense	(4,557)	(4,713)
Carrying amount at end	**22,739**	**27,296**

	2017 $	2016 $
Note 9. Property, plant and equipment (continued)		
Motor vehicles		
Carrying amount at beginning	18,052	22,708
Additions	-	-
Disposals	-	-
Less: depreciation expense	(4,656)	(4,656)
Carrying amount at end	**13,396**	**18,052**
Total written down amount	**422,640**	**457,006**

Note 10. Financial assets

Available-for-sale financial assets		
Unlisted investments, at cost:		
South East District Financial Services Limited (Sorell)	1,000	1,000
Tasman Community Financial Services Limited (Nubeena)	1,000	1,000
	2,000	**2,000**

Note 11. Intangible assets

Franchise fee (Geeveston/Dover)		
At cost	73,021	73,021
Less: accumulated amortisation	(71,043)	(68,735)
	1,978	**4,286**
Renewal processing fee (Geeveston/Dover)		
At cost	92,089	92,089
Less: accumulated amortisation	(84,193)	(74,963)
	7,896	**17,126**
Franchise fee (Huonville)		
At cost	21,297	21,297
Less: accumulated amortisation	(13,765)	(11,506)
	7,532	**9,791**
Establishment/renewal processing fee (Huonville)		
At cost	126,484	126,484
Less: accumulated amortisation	(88,828)	(77,531)
	37,656	**48,953**

	2017 $	2016 $

Note 11. Intangible assets (continued)

	2017 $	2016 $
Franchise fee (Cygnet)		
At cost	10,000	10,000
Less: accumulated amortisation	(6,667)	(4,667)
	3,333	**5,333**
Establishment fee (Cygnet)		
At cost	70,000	70,000
Less: accumulated amortisation	(46,667)	(32,667)
	23,333	**37,333**
Total written down amount	**81,728**	**122,822**

Note 12. Tax

	2017 $	2016 $
Current:		
Income tax payable/(refundable)	**8,186**	**(426)**
Non-Current:		
Deferred tax assets		
- accruals	1,018	2,284
- employee provisions	64,707	59,624
- tax losses carried forward	-	10,449
	65,725	**72,357**
Deferred tax liability		
- property, plant and equipment	13,737	11,232
	13,737	**11,232**
Net deferred tax asset	**51,988**	**61,125**
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	**9,137**	**(8,304)**

Note 13. Trade and other payables

	2017 $	2016 $
Current:		
Trade creditors	56	-
Other creditors and accruals	131,171	115,496
	131,227	**115,496**

	Note	2017 $	2016 $

Note 14. Borrowings

	Note	2017 $	2016 $
Current:			
Chattel mortgage	19	-	14,134
Bank loans		3,481	3,128
		3,481	**17,262**

The bank loan's final instalment is due on 14 September 2025. The company has paid down the loan in advance and has approximately $97,000 available for redraw.

Note 15. Provisions

	Note	2017 $	2016 $
Current:			
Provision for annual leave		80,462	75,176
Provision for long service leave		81,141	71,846
		161,603	**147,022**
Non-Current:			
Provision for long service leave		21,996	17,543

Note 16. Contributed equity

	Note	2017 $	2016 $
1,914,000 ordinary shares fully paid (2016: 1,914,000)		1,282,000	1,282,000
Less: equity raising expenses		(115,666)	(115,666)
		1,166,334	**1,166,334**

Rights attached to shares

(a) Voting rights

Subject to some limited exceptions, each member has the right to vote at a general meeting.

On a show of hands or a poll, each member attending the meeting (whether they are attending the meeting in person or by attorney, corporate representative or proxy) has one vote, regardless of the number of shares held. However, where a person attends a meeting in person and is entitled to vote in more than one capacity (for example, the person is a member and has also been appointed as proxy for another member) that person may only exercise one vote on a show of hands. On a poll, that person may exercise one vote as a member and one vote for each other member that person represents as duly appointed attorney, corporate representative or proxy.

The purpose of giving each member only one vote, regardless of the number of shares held, is to reflect the nature of the company as a community based company, by providing that all members of the community who have contributed to the establishment and ongoing operation of the **Community Bank®** branch have the same ability to influence the operation of the company.

Note 16. Contributed equity (continued)

Rights attached to shares (continued)

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

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

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

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

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

	Note	2017 $	2016 $

Note 17. Accumulated losses

Balance at the beginning of the financial year		(328,540)	(253,593)
Net profit/(loss) from ordinary activities after income tax		41,246	(36,667)
Dividends paid or provided for		(38,280)	(38,280)
Balance at the end of the financial year		**(325,574)**	**(328,540)**

	2017 $	2016 $

Note 18. Statement of cash flows

Reconciliation of profit/(loss) from ordinary activities after tax to net cash provided by operating activities

	2017 $	2016 $
Profit/(loss) from ordinary activities after income tax	41,246	(36,667)
Non cash items:		
- depreciation	47,445	47,886
- amortisation	41,094	41,908
- loss on disposal of asset	-	1,900
Changes in assets and liabilities:		
- increase in receivables	(19,772)	(48,651)
- decrease in other assets	9,563	270
- increase in payables	15,731	29,675
- increase in provisions	19,034	2,042
- increase in current tax liabilities	8,186	-
Net cash flows provided by operating activities	**162,527**	**38,363**

Note 19. Leases

Finance lease commitments

	2017 $	2016 $
Payable - minimum lease payments:		
- not later than 12 months	-	14,778
- between 12 months and 5 years	-	-
- greater than 5 years	-	-
Minimum lease payments	**-**	**14,778**
Less future finance charges	-	(644)
Present value of minimum lease payments	**-**	**14,134**

The finance lease is for a motor vehicle, which commenced in May 2012, is a 5-year lease. The lease was paid out during the 2017 financial year.

Operating lease commitments

	2017 $	2016 $
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable - minimum lease payments:		
- not later than 12 months	127,993	112,727
- between 12 months and 5 years	149,613	228,946
- greater than 5 years	-	-
	277,606	**341,673**

Note 19. Leases (continued)

All four branch premises leases are non-cancellable leases with five-year terms. The Dover branch lease is due for review in May 2018 with two additional five-year terms available. The Geeveston branch lease is due for renewal in May 2018. The Huonville lease is due for review in August 2020 with an additional five-year term available. The Cygnet lease is due for review in August 2018 with three additional five-year terms available. The Huonville Boardroom lease is a non-cancellable lease with a 50 month term. The lease is due for review in August 2020 with two additional five-year terms available. Rent is payable monthly in advance.

	2017 $	**2016 $**
Note 20. Auditor's remuneration		
Amounts received or due and receivable by the auditor of the company for:		
- audit and review services	5,500	5,110
- share registry services	6,495	6,463
- non audit services	3,575	3,514
	15,570	**15,087**

Note 21. Director and related party disclosures

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

Michael Anthony Lynch
Janet Ann Storan
Brent Andrew Hardy
Jillian Kay Griggs
John Patrick Synnott
David Allen Brereton
Christine Elizabeth Walker (Appointed 25 July 2016)
Simon Peter Burgess (Resigned 19 September 2017)
Laura Kate Shield (Appointed 29 August 2016 - Resigned 20 August 2017)
Nyal Nizazi Merdivenci (Resigned 26 March 2017)

No director or related entity has entered into a material contract with the company. Director's fees have been paid as outlined in Note 23.

	2017	**2016**
Directors' Shareholdings		
Michael Anthony Lynch	-	-
Janet Ann Storan	3,000	3,000
Brent Andrew Hardy	-	-
Jillian Kay Griggs	6,000	6,000
John Patrick Synnott	1,000	1,000
David Allen Brereton	20,000	20,000
Christine Elizabeth Walker (Appointed 25 July 2016)	-	-

Note 21. Director and related party disclosures (continued)

	2017	2016
Directors' Shareholdings (continued)		
Simon Peter Burgess (Resigned 19 September 2017)	11,820	11,820
Laura Kate Shield (Appointed 29 August 2016 - Resigned 20 August 2017)	-	-
Nyal Nizazi Merdivenci (Resigned 26 March 2017)	2,700	2,700

There was no movement in directors' shareholdings during the year.

Note 22. Dividends paid or provided

	2017 $	2016 $
a. Dividends paid during the year		
Current year dividend		
100% (2016: 100%) franked dividend - 2 cents (2016: 2 cents) per share	**38,280**	**38,280**
The tax rate at which dividends have been franked is 27.5% (2016: 30%).		
b. Franking account balance		
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	13,482	28,428
- franking credits/(debits) that will arise from payment/(refund) of income tax as at the end of the financial year	11,564	(426)
- franking debits that will arise from the payment of dividends recognised as a liability at the end of the financial year	-	-
Franking credits available for future financial reporting periods:	**25,046**	**28,002**
- franking debits that will arise from payment of dividends proposed or declared before the financial report was authorised for use but not recognised as a distribution to equity holders during the period	-	-
Net franking credits available	**25,046**	**28,002**

Note 23. Key management personnel disclosures

The following director received remuneration including superannuation, as follows:

John Patrick Synnott performed the role of Community Liaison Officer	39,600	39,600
	39,600	**39,600**

	2017 $	2016 $
Note 24. Earnings per share		
(a) Profit/(loss) attributable to the ordinary equity holders of the company used in calculating earnings per share	41,246	(36,667)

	Number	Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,914,000	1,914,000

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 financial services sector where it facilitates **Community Bank®** services in Geeveston, Dover, Huonville and Cygnet, Tasmania 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	**Principal Place of Business**
5/13 Main Street	5/13 Main Street
Huonville TAS 7109	Huonville TAS 7109

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.

	Floating interest		Fixed interest rate maturing in						Non interest bearing		Weighted average	
			1 year or less		Over 1 to 5 years		Over 5 years					
Financial instrument	**2017 $**	**2016 $**	**2017 $**	**2016 $**	**2017 $**	**2016 $**	**2017 $**	**2016 $**	**2017 $**	**2016 $**	**2017 %**	**2016 %**
Financial assets												
Cash and cash equivalents	381,580	234,185	-	-	-	-	-	-	838	846	0.74	1.61
Receivables	-	-	-	-	-	-	-	-	195,707	179,820	N/A	N/A
Financial liabilities												
Interest bearing liabilities	3,481	3,128	-	14,134	-	-	-	-	-	-	2.86	1.83
Payables	-	-	-	-	-	-	-	-	56	-	N/A	N/A

Net Fair Values

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

Credit Risk

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

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

Interest Rate Risk

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

Sensitivity Analysis

The company has performed sensitivity analysis relating to its exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in interest rates.

Note 29. Financial instruments (continued)

Sensitivity Analysis (continued)

As at 30 June 2017, the effect on profit and equity as a result of changes in interest rate, with all other variables remaining constant would be as follows:

	2017 $	2016 $
Change in profit/(loss)		
Increase in interest rate by 1%	3,781	2,169
Decrease in interest rate by 1%	(3,781)	(2,169)
Change in equity		
Increase in interest rate by 1%	3,781	2,169
Decrease in interest rate by 1%	(3,781)	(2,169)

Directors' declaration

In accordance with a resolution of the directors of Huon Valley Financial Services Limited, we state that:

In the opinion of the directors:

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

 (i) giving a true and fair view of the company's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and

 (ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

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

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

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

Michael Anthony Lynch,
Chairman

Signed on the 25th of September 2017.

Partners in success
Chartered Accountants

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Independent auditor's report to the members of Huon Valley Financial Services Limited

Report on the audit of the financial statements

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

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

What we have audited
Huon Valley Financial Services Limited's (the company) financial report comprises the:

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

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

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

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

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

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

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

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

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

Directors' responsibility for the financial report

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

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

Auditor's responsibility for the audit of the financial report

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

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

Andrew Frewin Stewart
61 Bull Street, Bendigo, 3550
Dated: 25 September 2017

David Hutchings
Lead Auditor

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