Annual Report 2017

Kentish Financial Services Limited

ABN 47 609 243 923

Sheffield & Railton Districts **Community Bank**® Branch

Contents

Chair's report

For year ending 30 June 2017

As Chairman of Kentish Financial Services Limited it is my pleasure to report to you, our valued shareholders, on the progress of your company during the 2016/17 financial year.

The company began the financial year whilst still raising the working capital required to meet Bendigo Bank's Franchise Agreement stipulations. As of 27 July 2016 the minimum capital requirement had been raised and the Board then resolved to continue capital raising which was subsequently closed off in October 2106 with in excess of $720,000 being raised, a resounding success.

With the minimum capital having been raised attention was then focussed on fit-out of our premises to be ready for the branch opening and on behalf of the Board I am pleased to report that we have secured a long-term lease from our landlords which, importantly, secures our tenure in the premises for a period which mirrors our Franchise Agreement with Bendigo Bank.

The Board's Site Sub-committee worked diligently to achieve a fit-out cost significantly below the initial estimate and key to this was the appointment of John DeJong and Sons, a Northwest Coast Building Contractor. This appointment also meant that local Sub-contractors were engaged in the building fit-out, consistent with the Board's core values of supporting local businesses.

At the same time the recruitment of our Branch Manager and Customer Service Officers was conducted and the depth of applicants for both positions was very pleasing with local resident Suellen Barth accepting the position as Branch Manager. Our branch staff underwent training in Bendigo Bank procedures and policies in preparation for our branch opening which was scheduled for 1 December 2016.

Our branch opening was a celebration of the achievement of our initial goal and it was great to see such a big crowd in attendance to unveil the branch. Bendigo Bank executive Alex Tullio was present to open the branch and also present was Kaye Walters, our first share purchaser, who cut the ribbon to open our doors. It was especially gratifying to see members of **Community Bank**® company Boards from right across Tasmania join us on opening day. These same people had inspired and motivated us throughout our campaign. With the generous support of Deloraine **Community Bank**® Branch we were able to make initial donations totalling $5,000 to community groups right across the Kentish region.

The opening of our branch will, I believe, prove to be a significant event in the development of our region. We have taken control of our own destiny and are now no longer in the position of relying upon the big four to provide banking services which are so vital to the viability of our local businesses.

Business growth since opening has outstripped that projected in our initial Business Plan and the Board strongly encourage all shareholders to fully commit to supporting us by ensuring they do their banking business with our branch to ensure it achieves profitability as soon as possible.

During the course of the financial year we have added to the strength and depth of the Board by recruiting Lynn Hayward and Laura Inder as Directors. Lynn has a wealth of experience in **Community Bank**® model, having been the Chair of the Board of Deloraine **Community Bank**® company and a member of Bendigo Banks National Advisory Council. Laura has a great depth of local business knowledge and we are pleased that they have both committed to serving our local community as members of our Board.

The Board has, and will continue, to work to engage with local residents, businesses and community groups to promote and grow our business to deliver the returns to locals.

Adrian Crowther
Chair

Manager’s report

For year ending 30 June 2017

How the time has flown by since the launch of our **Community Bank**® branch on 1 December 2016. I am very delighted to be submitting my first report as Branch Manager of the Sheffield & Railton Districts **Community Bank**® Branch. It has been a time of building and consolidating. We have grown our total business holdings from $15.2 million to $23.18 million as at 30 June 2017 just a little over 6 months of trade an overall growth of $7.98 million.

We have achieved growth in Bendigo Bank deposits and Home Loans, Managed deposit funds through Sandhurst Trustees and Rural Bank Lending.

We are continuing to develop vital relationships with Business Banking and Rural Banking partners, which are critical to our overall long-term success.

By continuing to grow our business, we will have many opportunities to support local organisations, clubs and the community in general, by way of sponsorships, donations or even just volunteering some time from the team here, in order to make our special community even better. As a **Community Bank**® company owned by local shareholders, that’s what we are all about giving back to you and the community at large!

From a staffing perspective we have had our challenges and teething issues, we have lost two staff members through this time and are currently recruiting a Customer Service Officer to find the right fit and commitment to our branch and community which will round out our great team. On a personal note I would like to thank Teana for her passion and dedication to her role and to the branch, volunteering her time at community events and for going the extra mile. Also I would like to thank the on-going support I receive from Bendigo Bank, it’s greatly appreciated.

The Sheffield & Railton Districts **Community Bank**® Branch has a very strong base on which to build and it is vital that we get as much support, from a banking perspective, from the local community in order to continue to build on that base. The Board, staff and Bendigo Bank representatives are absolutely committed to see continued growth.

As a branch we have no greater promotional tool than the advocacy of our customers and shareholders. I would like to thank you for your efforts in getting our branch to where it is today but would also like to encourage you to continue to talk to the rest of our community about what we have achieved and what the possibilities are once we achieve profitability.

I would like to take this opportunity to thank our customers that have chosen us for some, if not all of their banking. We look forward to developing those relationships even further.

I remain confident that we can continue to grow our business and look forward to helping your local bank making an even greater contribution back into our community and at the same time adding value to your investment as shareholders.

Suellen Barth
Branch Manager

Directors' report

For the financial year ended 30 June 2017

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

Directors

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

Adrian Crowther

Chairman

Occupation: Chairman of Stewards, Racing Integrity Tasmania

Qualifications, experience and expertise:Adrian has been the Chairman of Stewards for Office of Racing Integrity in Tasmania for the past three years whilst running the family farm at Railton. He has worked in Europe and the Middle East as a horse stud manager. He is a graduate of Marcus Oldham College in Geelong, Victoria after completing studies in Horse Business Management. Adrian joined the **Community Bank**® Project Steering Committee four years ago and has held the role of Chair for the past three years.

Interest in shares: 2,501

John Duncan Sinclair

Secretary

Occupation: Owner of local accommodation resort

Qualifications, experience and expertise:John owns and runs Silver Ridge Retreat a local accommodation resort. His past experience includes 34 years in banking, covering from waste clerk and teller to managing the credit department and later the Cape operations of a major South African Merchant Bank.

Interest in shares: 10,001

Deborah Baldock

Treasurer

Occupation: Customer Service Officer, Justice of the Peace

Qualifications, experience and expertise: Deborah is a Customer Service Officer at Service Tasmania – Sheffield. She has been a Justice of the Peace for 13 years. Deborah has held various positions in the local community including President of the local Parents & Friends Group. She was Treasurer of the Sheffield Baptist Church for 8 years.

Interest in shares: 1,501

Douglas George Begg

(resigned 15 March 2017)

Director

Occupation: Manager of local printing company

Qualifications, experience and expertise: Douglas is the Print Manager for Kentish Print and the Marketing and Distribution Manager for the Kentish Voice and the Central Coast Voice and he is also a Director of two private companies. He has spent most of his working life as a self-employed builder. Douglas is a founding member of the **Community Bank**® Steering Committee and was site coordinator for the new Branch.

Interest in shares: 601

Directors (continued)

Lesley Begg

Director

Occupation: Editor of local printing company

Qualifications, experience and expertise:Lesley is the Editor of the Kentish Voice and Central Coast Voice community newspapers and is a Director of two private companies. Lesley has studied sociology at La Trobe University and has had extensive experience in Human Resources and payroll for small business and large companies. Lesley has been a member of the Tasmanian Area Consultative Committee assessing Federal Government Grants. She is founding member of the **Community Bank**® Steering Committee and Pledge Coordinator for the **Community Bank**® Project.

Interest in shares: 601

Shayn William Harkness

Director

Occupation: Small Business Owner

Qualifications, experience and expertise: Earlier in his life, Shayn was an indentured metal working tradesman and owned and ran the Latrobe Judo Club for four years. Shayn currently is the owner of several small businesses in Kentish and was President of not-for-profit organisation Kentish Energy Efficiency Network Embracing Renewables Inc. Shayn also previously held positions of Treasurer and Secretary with not-for-profit organisation Mount Roland River Care Inc. In recent years, Shayn obtained a Certificate IV in Home & Business Sustainability. Shayn is a founding member of the **Community Bank**® Project Steering Committee.

Interest in shares: 2,501

Timothy Bruce Wilson

Director

Occupation: Librarian, Deputy Mayor of Kentish

Qualifications, experience and expertise: Tim has worked at the Sheffield District School as an Online Access Centre Coordinator for 18 years. He has been a member of the Kentish Council for 9 years and the Deputy Mayor for 7 years. Tim has worked on various committees and Boards such as Tandara Lodge, Mount Roland Rivercare and Camp Clayton.

Interest in shares: 1

Justin Stuart Carman

Director

Occupation: Manager of local accommodation resort

Qualifications, experience and expertise: Justin holds a Bachelor Degree in Arts from Macquarie University and a Graduate Diploma in Company Directorship from the Australian Institute of Directors, of which he is a member. Justin spent 22 years in the banking industry, with experience in Retail, SME Business, Corporate & Institutional Banking market segments. His most recent appointment was Institutional Banking specialising Government and Indigenous Banking. He now assists in the management, operations and development of Silver Ridge Retreat, is the project lead and partner in the Mt Roland Cableway Project and operates the Mt Roland Quad Bikes adventure business. Justin is a member of the Devonport and Cradle Country Tourism Association.

Interest in shares: 1

Directors' report (continued)

Directors (continued)

Lynette Ann Hayward

(appointed 14 May 2017)

Director

Occupation: Consultant

Qualifications, experience and expertise: M.Ed. Grad Cert Bus (Regional Development). Former senior manager at Telstra, Director of Personal at the University of Adelaide. Company Secretary from 2004 - 2008 and Board chair from 2009 - 2017 of MVFSL. Bendigo bank mentor for new community projects in Tasmania. VIC/TAS elected representative on CBSAB. Public Officer and former chair of Launceston Youth and Community Orchestra. Director of Kentish Financial Services Ltd June 2017 to present.

Interest in shares: 1,000

Laura Jo Inder

(appointed 1 July 2017)

Director

Occupation: Self Employed Tourist Operator

Qualifications, experience and expertise: Laura Inder was born and educated in Montana, USA, with a background in accounting, a most valuable asset in her partnership role creating & growing Tasmazia & the Village of Lower Crackpot from a Lavender farm to the prominent attraction it is today.

Laura was Treasurer for the International Mural Fest committee for 3 years and has been a member of Sheffield, Inc since the early days of the Murals, she is also a member of the Devonport & Cradle Country Tourism association.

Interest in shares: 60,000 (Joint ownership)

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

Any material related party disclosures are indicated in Note 20

Company Secretary

The company secretary is John Duncan Sinclair. John was appointed to the position of Company Secretary on 25 November 2015.

John operates a local accommodation resort. His past experience includes 34 years in banking across various roles, including managing the credit department of a major South African Merchant Bank.

Principal Activities

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

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

Operating results

Operations have continued to perform in line with expectations. The profit of the company for the financial year after provision for income tax was:

Year ended 30 June 2017 $	Year ended 30 June 2016 $
(123,093)	(2,627)

Directors' report (continued)

Dividends

No dividends were declared or paid for the previous year and the Directors recommend that no dividend be paid for the current year.

Significant changes in the state of affairs

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

Events since the end of the financial year

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

Likely developments

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

Environmental regulation

The company is not subject to any significant environmental regulation.

Directors' benefits

No Director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a Director, a firm which a Director is a member or an entity in which a Director has a substantial financial interest except as disclosed in note 21 and 22 to the financial statements. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the company's accounts, or the fixed salary of a full-time employee of the company, controlled entity or related body corporate.

Indemnification and insurance of Directors and Officers

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

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

Directors' meetings

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

	Board Meetings Attended	
	E	**A**
Deborah Baldock	22	22
Douglas George Begg (resigned 15 March 2017)	18	16
Lesley Begg	22	21
Adrian Crowther	22	21
Shayn William Harkness	22	21
John Duncan Sinclair	22	18
Timothy Bruce Wilson	22	20

Directors’ report (continued)

Directors’ meetings (continued)

	Board Meetings Attended	
	E	**A**
Justin Stuart Carman	22	20
Lynette Ann Hayward (appointed 14 May 2017)	2	2
Laura Jo Inder (appointed 1 July 2017)	-	-

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.

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 (Synectic Group) 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 & 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 & 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 9.

Signed in accordance with a resolution of the Board of Directors at Sheffield, Tasmania on 28 September 2017.

Adrian Crowther,
Chairman

Auditor's independence declaration

Synectic

Auditor's Independence Declaration

To the directors of Kentish Financial Services Limited

I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001; and

(b) no contraventions of any applicable code of professional conduct

in relation to our audit for the year ended 30 June 2017.

Synectic

Synectic Audit & Assurance Pty Ltd

Benjamin Coull
Director

Date: 28 September 2017

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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	93,685	500
Employee benefits expense		(127,994)	-
Charitable donations, sponsorship, advertising and promotion		(7,860)	-
Occupancy and associated costs		(16,439)	-
Systems costs		(5,637)	-
Depreciation and amortisation expense	5	(40,273)	-
Finance costs	5	-	-
General administration expenses		(54,899)	(4,174)
Profit before income tax expense		**(159,417)**	**(3,674)**
Income tax (expense)/benefit	6	36,324	1,047
Profit after income tax expense		**(123,093)**	**(2,627)**
Total comprehensive income for the year attributable to the ordinary shareholders of the company:		**(123,093)**	**(2,627)**
Earnings per share		**¢**	**¢**
Basic earnings per share	22	-20.24	(26,270.00)

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	280,308	363,111
Trade and other receivables	8	5,042	1,360
Prepayments		7,057	13,960
Total Current Assets		**292,407**	**378,431**
Non-Current Assets			
Property, plant and equipment	9	146,186	-
Intangible assets	10	96,000	-
Deferred tax asset	11	37,371	1,047
Total Non-Current Assets		**279,557**	**1,047**
Total Assets		**571,964**	**379,478**
LIABILITIES			
Current Liabilities			
Trade and other payables	12	7,549	14,955
Funds held in trust relating to capital raising		-	346,934
Current tax liabilities	11	-	-
Borrowings	13	-	20,206
Provisions	14	3,398	-
Total Current Liabilities		**10,947**	**382,095**
Non-Current Liabilities			
Trade and other payables	12	-	-
Borrowings	13	-	-
Provisions	14	1,014	-
Total Non-Current Liabilities		**1,014**	**-**
Total Liabilities		**11,961**	**382,095**
Net Assets		**560,003**	**(2,617)**
Equity			
Issued capital	15	725,651	10
Equity Raising Costs		(39,928)	-
Retained earnings	16	(125,720)	(2,627)
Total Equity		**560,003**	**(2,617)**

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	**-**	**-**	**-**
Total comprehensive income for the year	-	(2,627)	(2,627)
Transactions with owners in their capacity as owners:			
Shares issued during period	10	-	10
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	-	-
Balance at 30 June 2016	**10**	**(2,627)**	**(2,617)**
Balance at 1 July 2016	**10**	**(2,627)**	**(2,617)**
Total comprehensive income for the year	-	(123,093)	(123,093)
Transactions with owners in their capacity as owners:			
Shares issued during period	725,641	-	725,641
Costs of issuing shares	(39,928)	-	(39,928)
Dividends provided for or paid	-	-	-
Balance at 30 June 2017	**685,723**	**(125,720)**	**560,003**

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			
Cash receipts in the course of operations		89,943	-
Payments to suppliers and employees		(208,919)	(4,039)
Interest received		59	-
Net cash provided by operating activities	**17**	**(118,917)**	**(4,039)**
Cash flows from investing activities			
Payments for property, plant and equipment		(162,459)	-
Payments for intangible assets		(120,000)	-
Net cash used in investing activities		**(282,459)**	**-**
Cash flows from financing activities			
Proceeds from borrowings		-	20,206
Repayment of borrowings		(20,206)	-
Proceeds from capital raising		338,779	346,944
Net cash used in financing activities		**318,573**	**367,150**
Net increase/(decrease) in cash held		**(82,803)**	**363,111**
Cash and cash equivalents at the beginning of the financial year		363,111	-
Cash and cash equivalents at the end of the financial year	**7(a)**	**280,308**	**363,111**

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 a **Community Bank®** branches at Sheffield in the state of 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 in relation to:

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

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

b) Revenue

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

Revenue calculation

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

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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

c) Income tax (continued)

Deferred tax (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax and when the balances relate to taxes levied by the same taxation authority and the 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
- motor vehicles 3 - 5 years

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

h) Intangibles

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

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

i) Payment terms

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

j) Borrowings

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

k) Financial instruments

Recognition and initial measurement

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

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

Derecognition

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

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.

Taxation

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

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

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

Estimation of useful lives of assets

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

Goodwill

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

The calculations require the use of assumptions.

Impairment of assets

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

Note 3. Critical accounting estimates and judgements (continued)

Impairment of assets

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.

Note 4. Revenue from ordinary activities

	2017 $	2016 $
Operating activities:		
- gross margin	49,097	-
- services commissions	10,812	-
- fee income	5,129	-
- market development fund	23,333	-
- other revenue	255	500
Total revenue from operating activities	**88,626**	**500**

	2017 $	2016 $
Note 4. Revenue from ordinary activities (continued)		
Non-operating activities:		
- interest received	59	-
- donations received	5,000	-
- increase in net market value of financial assets		-
- profit on sale of non-current assets		-
Total revenue from non-operating activities	**5,059**	**-**
Total revenues from ordinary activities	**93,685**	**500**

Note 5. Expenses

	2017 $	2016 $
Depreciation of non-current assets:		
- leasehold improvements	16,273	-
- motor vehicle	-	-
Amortisation of non-current assets:		
- franchise fee and franchise renewal fee	24,000	-
	40,273	**-**
Finance costs:		
- interest paid	**-**	**-**
Bad debts	**-**	**-**
Impairment on revaluation of financial assets	**-**	**-**
Loss on sale of non-current assets	**-**	**-**

Note 6. Income tax expense

	2017 $	2016 $
The components of tax expense comprise:		
- Current tax	-	-
- Future income tax benefit attributable to losses	(36,324)	(1,047)
- Movement in deferred tax	-	-
- Adjustment to deferred tax to reflect change to tax rate in future periods	-	-
- Franking credits on dividends received	-	-
	(36,324)	**(1,047)**
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows		
Operating profit	(159,417)	(3,674)
Prima facie tax on profit from ordinary activities at 27.5% (2016: 28.5%)	(43,840)	(1,047)

	2017 $	2016 $

Note 6. Income tax expense (continued)

	2017 $	2016 $
Add tax effect of:		
- non-deductible expenses	7,813	-
- timing difference expenses	1,898	-
- black hole expenses	(2,196)	-
	(36,324)	**(1,047)**
Movement in deferred tax	-	-
Adjustment to deferred tax to reflect change of tax rate in future periods	-	-
Franking credits on dividends received	-	-
	(36,324)	**(1,047)**

Note 7. Cash and cash equivalents

	2017 $	2016 $
Cash at bank and on hand	280,308	363,111
Term deposits	-	-
	280,308	**363,111**
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	280,308	363,111
Term deposits	-	-
	280,308	**363,111**

Note 8. Trade and other receivables

	2017 $	2016 $
Trade receivables	4,225	-
Other receivables and accruals	817	1,360
	5,042	**1,360**

Note 9. Property, plant and equipment

	2017 $	2016 $
Leasehold improvements		
At cost	162,459	-
Less accumulated depreciation	(16,273)	-
	146,186	**-**
Total written down amount	**146,186**	**-**

	2017 $	2016 $

Note 9. Property, plant and equipment (continued)

Movements in carrying amounts:

Leasehold improvements		
Carrying amount at beginning	-	-
Additions	162,459	-
Disposals	-	-
Less: depreciation expense	(16,273)	-
Carrying amount at end	**146,186**	**-**
Total written down amount	**146,186**	**-**

Note 10. Intangible assets

Franchise fee and renewal processing fee

At cost	120,000	-
Less: accumulated amortisation	(24,000)	-
	96,000	**-**
Total written down amount	**96,000**	**-**

Note 11. Tax

Current:

Income tax payable	**-**	**-**
Non-Current:		
Deferred tax assets		
- tax losses carried forward	37,371	1,047
	37,371	**1,047**
Net deferred tax asset	**37,371**	**1,047**
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	**36,324**	**-**

Note 12. Trade and other payables

Current:

Trade creditors	172	3,300
Other creditors and accruals	7,377	11,655
	7,549	**14,955**
Non-Current:		
Other creditors and accruals	**-**	**-**

Notes to the financial statements (continued)

	Note	2017 $	2016 $

Note 13. Borrowings

	Note	2017 $	2016 $
Current:			
Bank loans	20	-	5,273
Other loans		-	14,933
		-	**20,206**
Non-Current:			
Chattel mortgage	**20**	**-**	**-**

Note 14. Provisions

	Note	2017 $	2016 $
Current:			
Provision for annual leave		3,398	-
Provision for long service leave		-	-
		3,398	**-**
Non-Current:			
Provision for long service leave		**1,014**	**-**

Note 15. Contributed equity

	Note	2017 $	2016 $
725,651 ordinary shares fully paid (2016: nil)		725,651	-
Less: equity raising expenses		(39,928)	-
		685,723	**-**

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 15. 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 any of the following applies:

- They control or own 10% or more of the shares in the company (the "10% limit").
- In the opinion of the Board they do not have a close connection to the community or communities in which the company predominantly carries on business (the "close connection test").
- Where the person is a shareholder, after the transfer of shares in the company to that person the number of shareholders in the company is (or would be) lower than the base number (the "base number test"). The base number is 209. As at the date of this report, the company had 226 shareholders.

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

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

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

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

Notes to the financial statements (continued)

	2017 $	2016 $

Note 16. Retained earnings

Balance at the beginning of the financial year	(2,627)	-
Net profit from ordinary activities after income tax	(123,093)	(2,627)
Dividends paid or provided for	-	-
Balance at the end of the financial year	**(125,720)**	**(2,627)**

Note 17. Statement of cash flows

Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities		
Profit from ordinary activities after income tax	(123,093)	(2,627)
Non cash items:		
- depreciation	16,273	-
- amortisation	24,000	-
- (profit)/loss on disposal of asset	-	-
- impairment on revaluation of investments	-	-
Changes in assets and liabilities:		
- (increase)/decrease in receivables	(3,682)	(1,360)
- (increase)/decrease in other assets	6,903	(13,960)
- (increase)/decrease in deferred tax asset	(36,324)	(1,047)
- increase/(decrease) in payables	(7,406)	14,955
- increase/(decrease) in provisions	4,412	-
Net cash flows provided by operating activities	**(118,917)**	**(4,039)**

Note 18. Leases

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	10,038	-
- between 12 months and 5 years	34,298	-
- greater than 5 years	-	-
	44,336	**-**

Note 19. Auditor's remuneration

	2017 $	2016 $
Amounts received or due and receivable by the Auditor of the company for:		
- audit and review services	4,773	2,000
- share registry services		-
- non audit services	-	-
	4,773	**2,000**

Note 20. Director and related party disclosures

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

	2017 $	2016 $
Transactions with related parties:		
Lease payments made to Laura & Brian Inder as Landlord for branch premises: Commitments for the lease in future years disclosed in Note 18	9,609	
Advertising in the Kentish Voice, payments to George Begg Family Trust	2,659	

Note 21. Key management personnel disclosures

No Director of the company receives remuneration for services as a company Director or committee member. There are no executives within the company whose remuneration is required to be disclosed.

Note 22. Earnings per share

	2017 $	2016 $
(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	(123,093)	(2,627)

	Number	Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	608,174	10

Note 23. Events occurring after the reporting date

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

Note 24. Contingent liabilities and contingent assets

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

Note 25. Segment Reporting

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

Note 26. Registered office/Principal place of business

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

Registered Office
25 Newbed Road
Railton TAS 7305

Principal Place of Business
44 Main Street
Sheffield TAS 7306

Note 27. Financial instruments

Financial Instrument Composition and Maturity Analysis

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

	Floating interest		Fixed interest rate maturing in						Non interest bearing		Weighted average	
			1 year or less		Over 1 to 5 years		Over 5 years					
Financial instrument	2017 $	2016 $	2017 $	2016 $	2017 $	2016 $	2017 $	2016 $	2017 $	2016 $	2017 %	2016 %
Financial assets												
Cash and cash equivalents	-	-	-	-	-	-	-	-	280,308	363,111	N/A	N/A
Receivables	-	-	-	-	-	-	-	-	5,042	1,360	N/A	N/A
Financial liabilities												
Interest bearing liabilities	-	-	-	-			-	-	-	-	N/A	N/A
Payables	-	-	-	-	-	-	-	-	5,322	14,955	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.

Note 27. Financial instruments (continued)

Interest Rate Risk

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

Sensitivity Analysis

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

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

	2017 $	2016 $
Change in profit/(loss)		
Increase in interest rate by 1%	-	-
Decrease in interest rate by 1%	-	-
Change in equity		
Increase in interest rate by 1%	-	-
Decrease in interest rate by 1%	-	-

Directors' declaration

In accordance with a resolution of the Directors of Kentish 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.

Adrian Crowther,
Chairman

Signed on the 28 September 2017.

Independent audit report

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Independent Auditor's Report

To the Members of Kentish Financial Services Limited

Report on the Audit of the Financial Report

We have audited the financial report of Kentish Financial Services Limited (the Company), which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

Opinion

In our opinion the accompanying financial report of Kentish Financial Services Limited is in accordance with the Corporations Act 2001, including:

(a) 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

(b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

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. 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 opinion.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that 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 gives a true and fair view and 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 to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities 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

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accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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Synectic Audit & Assurance Pty Ltd

Benjamin Coull
Director

Date: 28 September 2017

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