



Annual Report 2018

Kentish Financial
Services Limited

ABN 47 609 243 923

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

Contents

Chairman's report	2
Manager's report	3
Directors' report	4
Auditor's independence declaration	10
Financial statements	11
Notes to the financial statements	15
Directors' declaration	28
Independent audit report	29

Chairman's report

For year ending 30 June 2018

I present with pleasure to you, our valued shareholders, the Annual report for 2017/18.

As of 30 June 2018 our **Community Bank**[®] branch has been open for 19 months. During that time we have lived up to our commitment to provide banking services to the Kentish region in the face of a changing banking industry, underlined by the continued closure of rural banking services by the big four and a rapid change in the way customers access banking services. The take up of pay wave, internet banking and the declining use of cash have provided challenges to our business which we as a responsible Board of Directors need to be cognisant of when we make decisions as to how we serve you, our community.

During the past twelve months we have added two new Directors, Robyn Russell and Andrew Davies, to our Board. Our aim is and must always be to effectively represent all of Kentish at Board level.

One of the highlights of our last year was the bus trip we facilitated to Derby in early June. With construction of the Wild Mersey Mountain Bike trails now underway the trip was a great opportunity for Kentish business people to see for themselves the opportunities that will present with the influx of visitors to our region. We congratulate Kentish Council on their foresight in pursuing this great opportunity and thank them for the hard work that has been done to make sure this project goes ahead. We can all look forward to the prosperity that the trail network will bring to our whole region.

The key purpose of our **Community Bank**[®] branch is to keep banking profits local, and whilst not yet at profitability we have been able to support numerous community groups with sponsorship and assistance over the past twelve months. We have been particularly pleased to have supported the Sheffield Football Club, and our staff and Board members have given their own time to run the gate at all home games in the 2018 season. We look forward to this association continuing next season. Another key partnership has been forged with the Beacon Foundation running programs for Year 9 and 10 students at Sheffield School in 2017 and 2018 to teach students about goal setting and how to sharpen their job application and interview skills.

At branch level our team, supported by Bendigo and Adelaide Bank Limited, continue to work hard to grow our business to reach profitability. Our operating costs have remained under budget for the financial year, which is testimony to the prudent management adopted by our Board. We have not been able to meet our business growth target for the year and as Directors we must continue to stress to our community the importance of switching their banking business to achieve break even and then profitability. Statistics provided by our branch team show that a significant number of shareholders do not yet bank with us. We urge you to make the change now to ensure that we can live up to our charter as your **Community Bank**[®] branch.

With the support of Bendigo and Adelaide Bank Limited we will continue to support our branch team and will take every opportunity to promote our branch. The support of you, our community is key to our success.



Adrian Crowther
Chairman

Manager's report

For year ending 30 June 2018

Another year has flown by since the launch of our **Community Bank**[®] branch on 1 December 2016. It has been a time of building and consolidating. We have grown our total business holdings to \$25.57 million as at 30 June 2018 bringing our overall growth of \$2.39 million.

We have achieved growth in Bendigo Bank deposits and home loans as well as managed deposit funds through Sandhurst Trustees and Community Sector Banking.

We continue to develop vital relationships with Bendigo Business Banking and Rural Bank, 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 staff volunteering some time, in order to make our special community even better. To date we have returned \$25,270 back into our local community. As a **Community Bank**[®] company, owned by local shareholders, that's what we are all about. Giving back to you and the community as a whole.

From a staffing perspective, we think we have the right fit, with three dedicated and passionate staff Teana, Jann and myself, Suellen to service our very valued customer base.

The Sheffield & Railton Districts **Community Bank**[®] Branch has a very strong base to continue building on and it is vital that we get as much support, from a banking perspective, from the local community to continue to build on that base. The Board, the staff and Bendigo and Adelaide Bank Limited are absolutely committed to seeing the continued growth of the branch.

As a branch we have no greater promotional tool than the advocacy of our customers and shareholders. I would like to thank you, our shareholders, for your efforts in getting our branch to where it is today but would also 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 also 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 would like to thank Bendigo and Adelaide Bank Limited for the on-going support that I receive. It's greatly appreciated.

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 2018

Your directors submit the financial statements of the company for the financial year ended 30 June 2018.

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: 3,571

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 eight years.

Interest in shares: 1,501

Lesley Begg

Director (resigned 29 August 2018)

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

Directors' report (continued)

Directors (continued)

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 nine years and the Deputy Mayor for seven years. Tim has worked on various committees and boards such as Tandara Lodge, Mount Roland Rivercare and Camp Clayton.

Interest in shares: 501

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 in 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: 10,001

Lynette Ann Hayward

Director

Occupation: Consultant

Qualifications, experience and expertise: M.Ed. Grad Cert Bus (Regional Development). Former senior manager at Telstra, Director of personell 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 Limited June 2017 to present.

Interest in shares: 1,000

Directors' report (continued)

Directors (continued)

Laura Jo Inder

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 and growing Tasmazia and 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 three 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)

Robyn Anne Russell

(appointed 30 May 2018)

Director

Occupation: Business owner

Qualifications, experience and expertise: Robyn Russell, B.Bus, has lived in Kentish since 2006, having bought a local farm in 2003. She has experience in managing both human and financial resources, as a senior manager in public service organisations.

Prior to relocating to Kentish she provided small businesses with an understanding of taxation issues, including GST and superannuation. Robyn and her husband own and run a farming and bookkeeping business. She has helped with the Triple Top Mountain Race.

Interest in shares: 5,000

Andrew Oliver Davies

(appointed 27 July 2018)

Director

Occupation: Chief Pilot/Director

Qualifications, experience and expertise: Andrew Davies is a Sheffield local born in with old family roots in the Kentish community. Andrew was educated at Sheffield High School and furthered his education at Don Collage before moving over seas to pursue his travel dreams learning other languages and gaining knowledge on how the rest of the world works. After living over seas Andrew moved back to Perth WA where he worked FIFO as a driller in the mines. He moved home at the beginning of last year after nine years away and founded his tech based company Taz Drone Solutions. Bringing new innovations to the Sheffield community his knowledge lies in business creation, marketing, finances, networking and technology. He is also a keen sportsman having played the last season with the Sheffield Football Club.

Andrew comments on how living away has taught him what really matters in life is being close to family, a strong community and having something to call your own. His ideals and experience resonate with the Sheffield & Railton Districts **Community Bank**[®] Branch and we know he will be an asset as a Director on the Board.

Interest in shares: nil

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

Any material related party disclosures are indicated in Note 19.

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.

Directors' report (continued)

Principal Activities

The principal activities of the company during the financial year were facilitating **Community Bank**[®] services under management rights to operate a franchised branch 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 loss of the company for the financial year after provision for income tax was:

Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
(114,250)	(123,093)

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' report (continued)

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	10	10
Lesley Begg	10	7
Adrian Crowther	10	10
Shayn William Harkness	10	9
John Duncan Sinclair	10	8
Timothy Bruce Wilson	10	9
Justin Stuart Carman	5	5
Lynette Ann Hayward	10	10
Laura Jo Inder	10	7
Robyn Anne Russell (appointed 30 May 2018)	2	1
Andrew Oliver Davies (appointed 27 July 2018)	-	-

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 and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

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

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

Directors' report (continued)

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 10.

Signed in accordance with a resolution of the board of directors at Sheffield, Tasmania on 28 September 2018.

A handwritten signature in black ink, appearing to read 'Adrian Crowther', with a long horizontal flourish extending to the right.

**Adrian Crowther,
Chairman**

Auditor's independence declaration



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 2018.


Synectic Audit & Assurance Pty Ltd


Benjamin Coull
Director

Date: 28 September 2018

Synectic Audit & Assurance Pty Ltd

Authorised Audit Company 385720 | ABN 30 146 220 215

Devonport | Launceston | Hobart | www.synecticgroup.com.au

State-wide: Post/ PO, Box 6003, Devonport TAS 7310 | Phone 03 6424 1451 | Email info@synecticgroup.com.au

Liability limited by a scheme approved under Professional Standards Legislation.



Financial statements

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2018

	Notes	2018 \$	2017 \$
Revenue from ordinary activities	4	178,979	93,685
Employee benefits expense		(172,596)	(127,994)
Charitable donations, sponsorship, advertising and promotion		(8,264)	(7,860)
Occupancy and associated costs		(25,511)	(16,439)
Systems costs		(11,990)	(5,637)
Depreciation and amortisation expense	5	(53,314)	(40,273)
General administration expenses		(57,816)	(54,899)
Profit before income tax expense		(150,512)	(159,417)
Income tax (expense)/benefit	6	36,262	36,324
Profit after income tax expense		(114,250)	(123,093)
Total comprehensive income for the year attributable to the ordinary shareholders of the company:		(114,250)	(123,093)
Earnings per share		¢	¢
Basic earnings per share	21	(6.35)	(20.24)

The accompanying notes form part of these financial statements.

Financial statements (continued)

Balance Sheet as at 30 June 2018

	Notes	2018 \$	2017 \$
ASSETS			
Current assets			
Cash and cash equivalents	7	195,831	280,308
Trade and other receivables	8	6,222	5,042
Prepayments		5,277	7,057
Total current assets		207,330	292,407
Non-current assets			
Property, plant and equipment	9	118,112	146,186
Intangible assets	10	72,000	96,000
Deferred tax asset	11	73,633	37,371
Total non-current assets		263,745	279,557
Total assets		471,075	571,964
LIABILITIES			
Current liabilities			
Trade and other payables	12	20,054	7,549
Provisions	13	2,672	3,398
Total current liabilities		22,726	10,947
Non-current liabilities			
Trade and other payables	12	-	-
Provisions	13	2,596	1,014
Total non-current liabilities		2,596	1,014
Total liabilities		25,322	11,961
Net assets		445,753	560,003
EQUITY			
Issued capital	14	725,651	725,651
Equity Raising Costs		(39,928)	(39,928)
Accumulated losses	15	(239,970)	(125,720)
Total equity		445,753	560,003

The accompanying notes form part of these financial statements.

Financial statements (continued)

Statement of Changes in Equity for the year ended 30 June 2018

	Note	Issued capital \$	Accumulated losses \$	Total equity \$
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
Balance at 1 July 2017		685,723	(125,720)	560,003
Total comprehensive income for the year		-	(114,250)	(114,250)
Transactions with owners in their capacity as owners:				
Shares issued during period		-	-	-
Costs of issuing shares		-	-	-
Dividends provided for or paid		-	-	-
Balance at 30 June 2018		685,723	(239,970)	445,753

The accompanying notes form part of these financial statements.

Financial statements (continued)

Statement of Cash Flows for the year ended 30 June 2018

	Notes	2018 \$	2017 \$
Cash flows from operating activities			
Cash receipts in the course of operations		174,877	89,943
Payments to suppliers and employees		(260,319)	(208,919)
Interest received		2,205	59
Net cash provided by operating activities	16	(83,237)	(118,917)
Cash flows from investing activities			
Payments for property, plant and equipment		(1,240)	(162,459)
Payments for intangible assets		-	(120,000)
Net cash used in investing activities		(1,240)	(282,459)
Cash flows from financing activities			
Proceeds from borrowings		-	-
Repayments of borrowings		-	(20,206)
Proceeds from capital raising		-	338,779
Net cash used in financing activities		-	318,573
Net increase in cash held		(84,477)	(82,803)
Cash and cash equivalents at the beginning of the financial year		280,308	363,111
Cash and cash equivalents at the end of the financial year	7(a)	195,831	280,308

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2018

Note 1. Summary of significant accounting policies

a) Basis of preparation

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

Compliance with IFRS

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

Critical accounting estimates

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

Historical cost convention

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

Comparative figures

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

Application of new and amended accounting standards

There are a number of amendments to accounting standards issued by the AASB that became mandatorily effective for accounting periods beginning on or after 1 July 2017, 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 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 2017. 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.

AASB 16 Leases is effective for annual periods beginning on or after 1 January 2019. The standard introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The company has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend on future economic conditions, including the company's borrowing rate at 1 January 2019, the composition of the lease portfolio at that date, the latest assessment of whether the company will exercise any lease renewal options and the extent to which the company chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the company will recognise new assets and liabilities for its operating lease of its branch. As at 30 June 2018, the company's future minimum lease payment under non-cancellable operating leases amount to \$39,584 on an undiscounted basis (see Note 17).

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

Economic dependency - Bendigo and Adelaide Bank Limited

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of a **Community Bank®** branch at Sheffield in the state of Tasmania.

The branch 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® branch on behalf of Bendigo and Adelaide Bank Limited, however all transactions with customers conducted through the Community Bank® branch are effectively conducted between the customers and Bendigo and Adelaide Bank Limited.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Economic dependency - Bendigo and Adelaide Bank Limited (continued)

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

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

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

Bendigo and Adelaide Bank Limited provides significant assistance in establishing and maintaining the **Community Bank®** branch 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®** branch
- 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.

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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

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.

b) Revenue (continued)

Ability to change financial return

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

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

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

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

Monitoring and changing financial return

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

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

c) Income tax

Current tax

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

Deferred tax

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

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

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

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (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 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:

- leaseholding improvements	40	years
- motor vehicles	3 - 5	years

h) Intangibles

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

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

i) Payment terms

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

j) Borrowings

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

k) Financial instruments

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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

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.

(iii) Financial liabilities

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

Impairment

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

l) Leases

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

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

m) Provisions

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

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

n) 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.

Notes to the financial statements (continued)

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%.

Note 2. Financial risk management (continued)

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 2018 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.

Notes to the financial statements (continued)

Note 3. Critical accounting estimates and judgements (continued)

Taxation

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

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

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

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

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

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

Note 4. Revenue from ordinary activities	2018	2017
	\$	\$
Operating activities:		
- gross margin	107,894	49,097
- services commissions	18,838	10,812
- fee income	7,357	5,129
- market development fund	40,000	23,333
- other revenue	2,685	255
Total revenue from operating activities	<u>176,774</u>	<u>88,626</u>
Non-operating activities:		
- interest received	2,205	59
- donations received	-	5,000
Total revenue from non-operating activities	<u>2,205</u>	<u>5,059</u>
Total revenues from ordinary activities	<u>178,979</u>	<u>93,685</u>

Notes to the financial statements (continued)

Note 5. Expenses	2018	2017
	\$	\$
Depreciation of non-current assets:		
- leasehold improvements and property plant and equipment	29,314	16,273
Amortisation of non-current assets:		
- franchise fee and franchise renewal fee	24,000	24,000
	<u>53,314</u>	<u>40,273</u>

Note 6. Income tax expense

The components of tax expense comprise:		
- Future income tax benefit attributable to losses	(36,262)	(36,324)
	<u>(36,262)</u>	<u>(36,324)</u>

The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows

Operating profit	(150,512)	(159,417)
Prima facie tax on profit from ordinary activities at 27.5% (2017: 27.5%)	(41,391)	(43,840)
Add tax effect of:		
- non-deductible expenses	6,835	7,813
- timing difference expenses	490	1,898
- black hole expenses	(2,196)	(2,196)
	<u>(36,262)</u>	<u>(36,325)</u>
Movement in deferred tax		
Adjustment to deferred tax to reflect change of tax rate in future periods	-	-
Franking credits on dividends received	-	-
	<u>(36,262)</u>	<u>(36,325)</u>

Note 7. Cash and cash equivalents

Cash at bank and on hand	195,831	280,308
	<u>195,831</u>	<u>280,308</u>

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	195,831	280,308
	<u>195,831</u>	<u>280,308</u>

Note 8. Trade and other receivables

Trade receivables	6,122	4,225
Other receivables and accruals	100	817
	<u>6,222</u>	<u>5,042</u>

Note 9. Property, plant and equipment

Leasehold improvements		
At cost	163,699	162,459
Less accumulated depreciation	(45,587)	(16,273)
	<u>118,112</u>	<u>146,186</u>
Total written down amount	<u>118,112</u>	<u>146,186</u>

Notes to the financial statements (continued)

Note 9. Property, plant and equipment (continued)	2018	2017
	\$	\$
Movements in carrying amounts:		
Leasehold improvements		
Carrying amount at beginning	146,186	-
Additions	1,240	162,459
Disposals	-	-
Less: depreciation expense	(29,314)	(16,273)
Carrying amount at end	<u>118,112</u>	<u>146,186</u>
Total written down amount	<u>118,112</u>	<u>146,186</u>

Note 10. Intangible assets		
Franchise fee and renewal processing fee		
At cost	120,000	120,000
Less: accumulated amortisation	(48,000)	(24,000)
	<u>72,000</u>	<u>96,000</u>
Total written down amount	<u>72,000</u>	<u>96,000</u>

Note 11. Tax		
Current:		
Income tax payable	<u>-</u>	<u>-</u>
Non-Current:		
Deferred tax assets		
- tax losses carried forward	73,633	37,371
	<u>73,633</u>	<u>37,371</u>
Net deferred tax asset	<u>73,633</u>	<u>37,371</u>
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	<u>36,262</u>	<u>36,324</u>

Note 12. Trade and other payables		
Current:		
Trade creditors	4,243	172
Other creditors and accruals	15,811	7,377
	<u>20,054</u>	<u>7,549</u>
Non-Current:		
Other creditors and accruals	<u>-</u>	<u>-</u>

Note 13. Provisions		
Current:		
Provision for annual leave	<u>2,672</u>	<u>3,398</u>
Non-Current:		
Provision for long service leave	<u>2,596</u>	<u>1,014</u>

Notes to the financial statements (continued)

Note 14. Issued capital	2018	2017
	\$	\$
725,651 ordinary shares fully paid (2017: 725,651)	725,651	725,651
Less: equity raising expenses	(39,928)	(39,928)
	<u>685,723</u>	<u>685,723</u>

Rights attached to shares

(a) *Voting rights*

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

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

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

(b) *Dividends*

Generally, dividends are payable to members in proportion to the amount of the share capital paid up on the shares held by them, subject to any special rights and restrictions for the time being attaching to shares. The franchise agreement with Bendigo and Adelaide Bank Limited contains a limit on the level of profits or funds that may be distributed to shareholders. There is also a restriction on the payment of dividends to certain shareholders if they have a prohibited shareholding interest (see below).

(c) *Transfer*

Generally, ordinary shares are freely transferable. However, the directors have a discretion to refuse to register a transfer of shares.

Subject to the foregoing, shareholders may transfer shares by a proper transfer effected in accordance with the company's constitution and the *Corporations Act 2001*.

Prohibited shareholding interest

A person must not have a prohibited shareholding interest in the company.

In summary, a person has a prohibited shareholding interest if any of the following applies:

- They control or own 10% or more of the shares in the company (the "10% limit").
- In the opinion of the board they do not have a close connection to the community or communities in which the company predominantly carries on business (the "close connection test").
- 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"). Base number is 209. The company has 225 shareholders at the date of signing.

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

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

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

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

Note 15. Accumulated losses		
Balance at the beginning of the financial year	(125,720)	(2,627)
Net profit from ordinary activities after income tax	(114,250)	(123,093)
Dividends paid or provided for	-	-
Balance at the end of the financial year	<u>(239,970)</u>	<u>(125,720)</u>

Notes to the financial statements (continued)

Note 16. Statement of cash flows	2018	2017
	\$	\$
Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities		
Profit from ordinary activities after income tax	(114,250)	(123,093)
Non cash items:		
- depreciation	29,314	16,273
- amortisation	24,000	24,000
Changes in assets and liabilities:		
- (increase)/decrease in receivables	(1,180)	(3,682)
- (increase)/decrease in other assets	1,780	6,903
- (increase)/decrease in deferred tax asset	(36,262)	(36,324)
- increase/(decrease) in payables	12,505	(7,406)
- increase/(decrease) in provisions	856	4,412
Net cash flows provided by operating activities	<u>(83,237)</u>	<u>(118,917)</u>

Note 17. 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	11,342	10,038
- between 12 months and 5 years	28,242	34,298
- greater than 5 years	-	-
Minimum lease payments	<u>39,584</u>	<u>44,336</u>

Note 18. Auditor's remuneration

Amounts received or due and receivable by the auditor of the company for:		
- audit and review services	5,350	4,773
	<u>5,350</u>	<u>4,773</u>

Note 19. 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.

Lease payments made to Laura & Brian Inder as Landlord for branch premises: Commitments for the lease in future years disclosed in Note 17	10,628	9,609
Advertising in the Kentish Voice, payments to George Begg Family Trust	1,508	2,659

Note 19. Director and related party disclosures

Directors Shareholdings

Deborah Baldock	1,501	1,501
Lesley Begg	601	601
Adrian Crowther	3,571	2,501
Shayn William Harkness	2,501	2,501
John Duncan Sinclair	10,001	10,001
Timothy Bruce Wilson	501	1
Justin Stuart Carman	10,001	1
Lynette Ann Hayward	1,000	1,000
Laura Jo Inder	60,000	60,000
Robyn Anne Russell (appointed 30 May 2018)	5,000	5,000
Andrew Oliver Davies (appointed 27 July 2018)	-	-

Notes to the financial statements (continued)

Note 20. 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 21. Earnings per share	2018	2017
	\$	\$
(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	(114,250)	(123,093)
	Number	Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	725,651	608,174

Note 22. 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 23. 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 24. Segment reporting

The economic entity operates in the service sector where it facilitates **Community Bank**® services in Sheffield & Railton, Tasmania

Note 25. 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
25 Newbed Road Railton TAS 7305	44 Main Street Sheffield TAS 7306

Notes to the financial statements (continued)

Note 26. Financial instruments

Financial Instrument Composition and Maturity Analysis

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

Financial instrument	Floating interest		Fixed interest rate maturing in						Non interest bearing		Weighted average	
			1 year or less		Over 1 to 5 years		Over 5 years					
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
Financial assets												
Cash and cash equivalents	172,198	-	-	-	-	-	-	-	23,632	280,308	2.39	N/A
Receivables	-	-	-	-	-	-	-	-	6,122	5,042	N/A	N/A
Financial liabilities												
Interest bearing liabilities	-	-	-	-	-	-	-	-	-	-	N/A	N/A
Payables	-	-	-	-	-	-	-	-	20,054	5,322	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.

As at 30 June 2018, the effect on profit and equity as a result of changes in interest rate, with all other variables remaining constant would be as follows:

	2018	2017
	\$	\$
Change in profit/(loss)		
Increase in interest rate by 1%	1,722	-
Decrease in interest rate by 1%	(1,722)	-
Change in equity		
Increase in interest rate by 1%	1,722	-
Decrease in interest rate by 1%	(1,722)	-

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 2018 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 2018

Independent audit report



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 2018, 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 2018 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

Synectic Audit & Assurance Pty Ltd

Authorised Audit Company 385720 | ABN 30 146 220 215

Devonport | Launceston | Hobart | www.synecticgroup.com.au

State-wide: Postal PO. Box 6003, Devonport TAS 7310 | Phone 03 6424 1451 | Email info@synecticgroup.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Independent audit report (continued)



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.

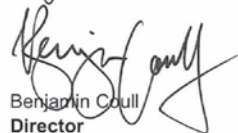
As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- 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.


Synectic Audit & Assurance Pty Ltd


Benjamin Coull
Director

Date: 28 September 2018

Sheffield & Railton Districts **Community Bank**[®] Branch
44 Main Street, Sheffield TAS 7306
Phone: (03) 6491 1811 Fax: (03) 6491 1995

Franchisee: Kentish Financial Services Limited
44 Main Street, Sheffield TAS 7306
Phone: 0459 824 945 Fax: (03) 6491 1995
ABN: 47 609 243 923

www.bendigobank.com.au/sheffield-railton
(BNPAR18092) (10/18)



bendigobank.com.au

