



Annual Report 2017

Kingsway Community
Financial Services Ltd

ABN 48 104 124 638

Kingsway **Community Bank**[®] Branch

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Chairman's report

For year ending 30 June 2017

Well that year went fast!

Again, we have seen some changes in the staff at the branch. We have three new employees, Dee Christensen, Kyah Butters and a new Manager Vicki Petreski who has only been with us a few months so some of you might not have met her yet.

Our Board has also seen some changes with the retirement of Gill Durham and the appointing of two new Directors David Arkins, and just in the last few months, Suzanne Dodds both of which come with a world of knowledge and are a great asset to the Board. We will continue to bring new Directors onto the Board as required to make sure that we have the best resources to make informed decisions with the help of our partner Bendigo Bank.

Last year I mentioned that at the top of our agenda was to be able to pay a dividend. We can tick that off our list as we declared a dividend at 30 June 2017. We are taking small steps and hope to keep the momentum and continue to pay a dividend each year with the support of our wonderful customers. Every day, every new account means we can support the community and pay a dividend.

The staff and Board are very committed to growing our business and ask that the shareholders also get behind your bank and help spread the word about how banking with your local Kingsway **Community Bank**[®] Branch makes a difference in the community.

As shareholders, without your early commitment and ongoing support there would be no 'community' in front of your 'bank' and we would not have been able to support local clubs and organisations. Over the last 13 years we have been able to give over \$340,000 back to local clubs and organisations like Calan Williams Racing, Wanneroo Show and Padbury Netball Club just to name a few.

A huge thank you goes out to our staff because without them we would not have a bank. They continue to work with our partner Bendigo Bank to offer the best products at the best price in this very competitive market.

Thank you to everyone for your trust and support.



Beverley Errington
Chairperson

Bendigo and Adelaide Bank report

For year ending 30 June 2017

As we approach 20 years since the first **Community Bank**[®] branch opened its doors, it's timely to reflect on the role of our network's 70,000-strong shareholders and its army of nearly 2,000 passionate local Directors.

As a group of people you are a powerful force that continues to influence change both locally and nationally.

United for a shared purpose in your communities, you are making big things happen beyond the delivery of great banking products and services; you're creating jobs, helping businesses to thrive, solving problems and achieving outcomes that will make your communities better places to live and do business.

Amongst other things, you are providing hundreds of thousands of people in communities around Australia with new opportunities to:

- Play sport in new **Community Bank**[®] funded centres.
- Continue their education thanks to a **Community Bank**[®] scholarship.
- Seek treatment in hospitals closer to home with equipment funded through a **Community Bank**[®] grant.
- Reap the environmental benefits of **Community Bank**[®] funded solar panels and LED lighting, and
- Access mental health services for teenage children with a service supported by a local **Community Bank**[®] branch.

In fact, since the model's inception your investment in local communities exceeds \$165 million and that figure continues to grow every year. This amount excludes the significant co-investment on key projects that many companies have obtained from Government and other parties.

Nationally our voices are increasingly being heard, and our collaborative approach recognised and celebrated.

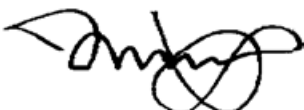
Representing us all at a recent forum at Canberra's Parliament House, Bendigo Bank's Managing Director and Chairman reinforced the significance of the **Community Bank**[®] model's achievements and called for regulatory change that would help us compete in a crowded and ever-evolving banking sector. Just two months later, the Federal Government announced a levy on Australia's biggest banks that is set to re-level the playing field as we've regularly advocated for.

But for us this is more than a levy. The Turnbull Government's announcement recognises the importance of customers having access to a robust, competitive and customer-focused banking sector. On this note Bendigo Bank was recently recognised as the banking provider of choice in the annual Mozo People's Choice Awards. Better yet, out of 110 banking providers nationally, we were the only bank recognised in all eight banking categories – and were rated the leading bank in six of those eight categories.

This is an extraordinary achievement for you and our bank. Not only does it demonstrate that, in the eyes of our customers, we are doing something right – it very clearly outlines that together we can continue to achieve results.

As we've long known, the more successful our customers are, the stronger our communities become. In this regard the **Community Bank**[®] model enables these outcomes for customers and communities, as increasingly recognised by more and more Australians.

So thank you for your investment in your local **Community Bank**[®] company, for your ongoing contribution and support, tireless advocacy and continued commitment to building strong local communities. Without this, our **Community Bank**[®] branches would be just another bank.



Robert Musgrove
Executive Engagement Innovation

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:

Beverley Jane Errington

Non-Executive Director/Chairperson

Occupation: Bookkeeper/Administrator

Qualifications, experience and expertise: Beverley has served on the board for 9 years, the last four of those as chairperson. Beverley still remains actively involved with all the day-to-day activities of the company. Beverley is also the Treasurer of the Wanneroo Agricultural Society which also keeps her involved with the community.

Special responsibilities: Nil

Interest in shares: 1,000

Peter Michael Burns

Non-Executive Director, Company Secretary and Treasurer

Occupation: Retired Certified Practising Accountant

Qualifications, experience and expertise: Commenced working life as a banker, and whilst doing so commenced studies and qualified as an accountant. Has held positions at state and national level with CPA Australia. Built a successful accounting practice which operated for 40 years. Continues to remain a Fellow of CPA Australia. Principal area of expertise is that of corporate governance and finance management. Is actively involved in Rotary and has been awarded a Paul Harris Fellow for his services.

Special responsibilities: Nil

Interest in shares: 5,000

Joseph James Hawkins J.P.

Non-Executive Director

Occupation: Company Director

Qualifications, experience and expertise: Has owned and run JJ Hawkins Group of companies for the last 50 years. Member of Rotary Foundation for the past 40 years. Has been a contributor to various other community groups in the past.

Special responsibilities: Nil

Interest in shares: 12,501

Anne Williams

Non-Executive Director

Occupation: Retired

Qualifications, experience and expertise: Currently organising outings for seniors (for the last 12 years) not-for-profit community service. Have a Go News - Social Scene columnist and Function Coordinator. Retirees WA - Public Affairs Manager. COTA - Council on the Ageing - Membership Marketing Officer. Management programmes - self employed - Coordinating WMC and Alcoa Metallurgy Conference Seminars, Workshops on Management. UWS - Graduate School of Management - Executive Management Programs - Senior Coordinator.

Special responsibilities: Sponsorship Committee.

Interest in shares: Nil

Directors' report (continued)

Directors (continued)

Walton Ricky Smith

Non-Executive Director

Occupation: Business Consultant/General Manager

Qualifications, experience and expertise: Business Consultant (Managing Director Elite Business Performance Pty Ltd). Qualified Barrister and Solicitor (LLB). Former CEO of Basketball WA and Rugby WA. Sessional Lecturer and tutor at Edith Cowan University. Former Board Member of WA Sports Federation - Chair of Audit and Risk Committee. General Manager and Volunteer Surf Life Saver with North Cottesloe Surf Life Saving Club.

Special responsibilities: Sponsorship Committee.

Interest in shares: Nil

David Anthony Arkins

Non-Executive Director (Appointed 2 May 2017)

Occupation: Commercial Advisor

Qualifications, experience and expertise: David is a chartered accountant with 15 years experience as an oil and gas professional. Working for the past 12 years for Chevron, he has held numerous roles in the Finance, Strategic Planning and Commercial departments, both in Australia and Korea, working on some of the largest resource projects in the world.

Special responsibilities: Nil

Interest in shares: Nil

Gilbert George Durham

Non-Executive Director (Resigned 2 January 2017)

Occupation: Retired

Qualifications, experience and expertise: Qualified carpenter and joiner. Owner and Managing Director of Commercial Fitout Company for past 25 years. Helped in establishing and running of a Men's Shed working with community groups and schools. Working with City of Wanneroo on a proposed Community Centre.

Special responsibilities: Nil

Interest in shares: Nil

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

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

Company Secretary

The company secretary is Peter Burns. Peter was appointed to the position of secretary on 27 February 2008.

Originally a banker, Peter undertook further studies and qualified as an accountant. He held a number of positions with CPA Australia both locally and nationally. After 40 years in practice, Peter retired in 2013. He remains a Fellow of CPA Australia and uses this experience in the financial management and corporate governance of the company. He has been actively involved with Rotary for 39 years and was awarded Paul Harris Fellow for his services to Rotary.

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.

Directors' report (continued)

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 \$
28,697	12,020

Dividends

During the period, the board resolved to pay a 3 cents per share dividend on 30 June 2017.

	Year ended 30 June 2017	
	Cents	\$
Final dividends recommended:	3.00	23,250

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 20 and 21 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.

Directors' report (continued)

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		Committee Meetings Attended	
			Sponsorship & Marketing	
	A	B	A	B
Beverley Jane Errington	11	11	-	-
Peter Michael Burns	11	9	-	-
Joseph James Hawkins	11	10	-	-
Anne Williams	11	10	3	3
Walton Ricky Smith	11	10	3	3
David Anthony Arkins*	3	2	-	-
Gill Durham**	5	4	1	1

A - eligible to attend

* (Appointed 2 May 2017)

B - number attended

** (Resigned 2 January 2017)

Proceedings on behalf of the company

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

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

Non audit services

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

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

Directors' report (continued)

Non audit services (continued)

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

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

Auditor's independence declaration

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

Signed in accordance with a resolution of the board of directors at Madeley, Western Australia on 18 August 2017.



**Beverley Jane Errington,
Chairperson**

Auditor's independence declaration



Chartered Accountants

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

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

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

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

A handwritten signature in black ink, appearing to read 'Andrew Frewin Stewart'.

Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550
Dated: 18 August 2017

A handwritten signature in black ink, appearing to read 'David Hutchings'.

David Hutchings
Lead Auditor

Taxation | Audit | Business Services

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

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	778,520	816,106
Employee benefits expense		(355,558)	(361,200)
Charitable donations, sponsorship, advertising and promotion		(21,897)	(46,393)
Occupancy and associated costs		(151,159)	(162,550)
Systems costs		(34,690)	(33,220)
Depreciation and amortisation expense	5	(37,950)	(28,066)
Finance costs	5	(12,622)	(596)
General administration expenses		(125,033)	(165,275)
Profit before income tax expense		39,611	18,806
Income tax expense	6	(10,914)	(6,786)
Profit after income tax expense		28,697	12,020
Total comprehensive income for the year attributable to the ordinary shareholders of the company:		28,697	12,020
Earnings per share		¢	¢
Basic earnings per share	22	3.70	1.55

The accompanying notes form part of these financial statements.

Financial statements (continued)

Balance Sheet as at 30 June 2017

	Notes	2017 \$	2016 \$
ASSETS			
Current Assets			
Cash and cash equivalents	7	316,332	267,547
Trade and other receivables	8	66,449	62,798
Total Current Assets		382,781	330,345
Non-Current Assets			
Property, plant and equipment	9	259,529	282,970
Intangible assets	10	27,223	40,834
Deferred tax asset	11	-	7,021
Total Non-Current Assets		286,752	330,825
Total Assets		669,533	661,170
LIABILITIES			
Current Liabilities			
Trade and other payables	12	77,004	4,509
Borrowings	13	42,575	225,477
Provisions	14	9,097	9,903
Total Current Liabilities		128,676	239,889
Non-Current Liabilities			
Provisions	14	2,325	1,404
Borrowings	13	109,315	-
Deferred tax liabilities	11	3,893	-
Total Non-Current Liabilities		115,533	1,404
Total Liabilities		244,209	241,293
Net Assets		425,324	419,877
Equity			
Issued capital	15	775,009	775,009
Accumulated losses	16	(349,685)	(355,132)
Total Equity		425,324	419,877

The accompanying notes form part of these financial statements.

Financial statements (continued)

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

	Issued capital \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2015	775,009	(367,151)	407,858
Total comprehensive income for the year	-	12,020	12,020
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 2016	775,009	(355,131)	419,878
Balance at 1 July 2016	775,009	(355,132)	419,877
Total comprehensive income for the year	-	28,697	28,697
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(23,250)	(23,250)
Balance at 30 June 2017	775,009	(349,685)	425,324

The accompanying notes form part of these financial statements.

Financial statements (continued)

Statement of Cash Flows for the year ended 30 June 2017

	Notes	2017 \$	2016 \$
Cash flows from operating activities			
Receipts from customers		846,978	879,772
Payments to suppliers and employees		(716,883)	(855,928)
Interest received		5,328	9,784
Interest paid		(12,622)	(596)
Net cash provided by operating activities	17	122,801	33,032
Cash flows from investing activities			
Payments for property, plant and equipment		(898)	(296,116)
Net cash used in investing activities		(898)	(296,116)
Cash flows from financing activities			
Proceeds from borrowings		180,000	-
Repayment of borrowings		(27,641)	-
Net cash provided by financing activities		152,359	-
Net increase/(decrease) in cash held		274,262	(263,084)
Cash and cash equivalents at the beginning of the financial year		42,070	305,154
Cash and cash equivalents at the end of the financial year	7(a)	316,332	42,070

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2017

Note 1. Summary of significant accounting policies

a) Basis of preparation

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

Compliance with IFRS

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

Critical accounting estimates

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

Historical cost convention

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

Comparative figures

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

Application of new and amended accounting standards

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

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

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

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

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

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

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank**[®] branch at Madeley, Western Australia.

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.

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.

Notes to the financial statements (continued)

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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

b) Revenue (continued)

Ability to change financial return (continued)

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

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

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

Monitoring and changing financial return

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

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

c) Income tax

Current tax

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

Deferred tax

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

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

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

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
- plant and equipment 2.5 - 40 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) 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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

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.

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

Notes to the financial statements (continued)

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.

Notes to the financial statements (continued)

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.

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.

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.

Notes to the financial statements (continued)

Note 3. Critical accounting estimates and judgements (continued)

Impairment of assets (continued)

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

	2017	2016
	\$	\$

Note 4. Revenue from ordinary activities

Operating activities:

- gross margin	585,029	543,279
- services commissions	121,009	162,569
- fee income	41,169	50,474
- market development fund	25,000	50,000
Total revenue from operating activities	772,207	806,322

Non-operating activities:

- interest received	5,328	9,784
- sundry income	985	-
Total revenue from non-operating activities	6,313	9,784
Total revenues from ordinary activities	778,520	816,106

Note 5. Expenses

Depreciation of non-current assets:

- leasehold improvements	18,221	3,563
- plant and equipment	6,118	10,892

Amortisation of non-current assets:

- franchise agreement	2,269	2,269
- franchise renewal fee	11,342	11,342
	37,950	28,066

Finance costs:

- interest paid	12,622	596
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Bad debts	615	1,501
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Loss on disposal of asset	-	12,323
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Notes to the financial statements (continued)

	Note	2017 \$	2016 \$
Note 6. Income tax expense			
The components of tax expense comprise:			
- Future income tax benefit attributable to losses		-	(7,452)
- Movement in deferred tax		(2,201)	17,868
- Adjustment to deferred tax to reflect change to tax rate in future periods		-	255
- Recoupment of prior year tax losses		13,115	-
- Under/(Over) provision of tax in the prior period		-	(3,885)
		10,914	6,786

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

Operating profit		39,611	18,806
Prima facie tax on profit from ordinary activities at 27.5% (2016: 28.5%)		10,893	6,530
Add tax effect of:			
- non-deductible expenses		21	3,512
- timing difference expenses		2,201	(17,494)
		13,115	(7,452)
Movement in deferred tax		(2,201)	17,868
Adjustment to deferred tax to reflect change of tax rate in future periods		-	255
Under/(over) provision of income tax in the prior year		-	(3,885)
		10,914	6,786

Note 7. Cash and cash equivalents

Cash at bank and on hand		76,535	1,046
Term deposits		239,797	266,501
		316,332	267,547

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		76,535	1,046
Term deposits		239,797	266,501
Bank overdraft	13	-	(225,477)
		316,332	42,070

Notes to the financial statements (continued)

	2017 \$	2016 \$
Note 8. Trade and other receivables		
Trade receivables	58,205	54,240
Prepayments	8,244	8,558
	66,449	62,798

Note 9. Property, plant and equipment

Leasehold improvements		
At cost	267,298	267,298
Less accumulated depreciation	(28,389)	(10,168)
	238,909	257,130
Plant and equipment		
At cost	29,715	28,817
Less accumulated depreciation	(9,095)	(2,977)
	20,620	25,840
Total written down amount	259,529	282,970
Movements in carrying amounts:		
Leasehold improvements		
Carrying amount at beginning	257,130	9,527
Additions	-	267,298
Disposals	-	(8,803)
Less: depreciation expense	(18,221)	(10,892)
Carrying amount at end	238,909	257,130
Plant and equipment		
Carrying amount at beginning	25,840	4,105
Additions	898	28,818
Disposals	-	(3,520)
Less: depreciation expense	(6,118)	(3,563)
Carrying amount at end	20,620	25,840
Total written down amount	259,529	282,970

Notes to the financial statements (continued)

	2017 \$	2016 \$
Note 10. Intangible assets		
Franchise fee		
At cost	78,611	78,611
Less: accumulated amortisation	(74,074)	(71,805)
	4,537	6,806
Renewal processing fee		
At cost	56,713	56,713
Less: accumulated amortisation	(34,027)	(22,685)
	22,686	34,028
Total written down amount	27,223	40,834

Note 11. Tax

Deferred tax assets		
- accruals	745	1,319
- employee provisions	3,141	3,109
- tax losses carried forward	7,893	21,007
	11,779	25,435
Deferred tax liability		
- property, plant and equipment	15,672	18,414
	15,672	18,414
Net deferred tax asset/(liability)	(3,893)	7,021
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	10,914	6,786

Note 12. Trade and other payables

Trade creditors	19,089	-
Other creditors and accruals	57,915	4,509
	77,004	4,509

Notes to the financial statements (continued)

	2017 \$	2016 \$
Note 13. Borrowings		
Current:		
Bank overdrafts	-	225,477
Bank loans	42,575	-
	42,575	225,477
Non-current:		
Bank loans	109,315	-
	109,315	-

The company has an approved overdraft facility of \$100,000. The facility is secured by a floating charge over the company's assets and subject to standard commercial terms and conditions.

The company refinanced its overdraft on 1 July 2016 with a \$180,000 term loan. The loan facility is secured by a floating charge over the Company's assets and subject to standard commercial terms and conditions. Interest is charged at an average rate of 7.15%.

	2017 \$	2016 \$
Note 14. Provisions		
Current:		
Provision for annual leave	9,097	9,903
Non-Current:		
Provision for long service leave	2,325	1,404

Note 15. Contributed equity

775,009 ordinary shares fully paid (2016: 775,009)	775,009	775,009
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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.

Notes to the financial statements (continued)

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

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

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

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

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

	2017 \$	2016 \$
Note 16. Accumulated losses		
Balance at the beginning of the financial year	(355,132)	(367,152)
Net profit from ordinary activities after income tax	28,697	12,020
Dividends paid or provided for	(23,250)	-
Balance at the end of the financial year	(349,685)	(355,132)

Notes to the financial statements (continued)

	2017 \$	2016 \$
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	28,697	12,020
Non cash items:		
- depreciation	24,339	14,455
- amortisation	13,611	13,611
- loss on disposal of asset	-	12,323
Changes in assets and liabilities:		
- (increase)/decrease in receivables	(3,651)	(15,186)
- (increase)/decrease in other assets	6,552	6,786
- increase/(decrease) in payables	49,245	(13,049)
- increase/(decrease) in provisions	115	2,072
- increase/(decrease) in tax liabilities	3,893	-
Net cash flows provided by operating activities	122,801	33,032

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	136,860	90,241
- between 12 months and 5 years	329,938	276,463
- greater than 5 years	-	-
	466,798	366,704

The property lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. The lease is due for renewal on 1 December 2020.

The board room lease is a non-cancellable lease with a two-year term, with rent payable monthly in advance. The lease is due for renewal on 31 October 2017.

Note 19. Auditor's remuneration

Amounts received or due and receivable by the auditor of the company for:

- audit and review services	4,300	4,100
- non audit services	4,395	3,466
	8,695	7,566

Notes to the financial statements (continued)

Note 20. Director and related party disclosures

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

Beverley Jane Errington	Walton Ricky Smith
Peter Michael Burns	David Anthony Arkins (Appointed 2 May 2017)
Joseph James Hawkins	Gill Durham (Resigned 2 January 2017)
Anne Williams	

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:		
Beverley Errington provided bookkeeping services during the period. All services were provided at market value.	9,000	10,000
Peter Newbound managed Kingsway CFSL workers compensation policy as a broker.	-	110

	2017	2016
Directors' Shareholdings		
Beverley Jane Errington	1,000	1,000
Peter Michael Burns	5,000	5,000
Joseph James Hawkins	12,501	12,501
Anne Williams	-	-
Walton Ricky Smith	-	-
David Anthony Arkins (Appointed 2 May 2017)	-	-
Gill Durham (Resigned 2 January 2017)	-	-

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

	2017 \$	2016 \$
Note 21. Key management personnel disclosures		
The directors received remuneration including superannuation, as follows:		
Beverley Jane Errington	20,000	20,000
Peter Michael Burns	3,000	3,000
Joseph James Hawkins	3,000	3,000
Anne Williams	3,000	3,000
Walton Ricky Smith	3,000	3,000
David Anthony Arkins (Appointed 2 May 2017)	-	-
Gill Durham (Resigned 2 January 2017)	-	2,000
	32,000	34,000

Notes to the financial statements (continued)

Note 21. Key management personnel disclosures (continued)

Community Bank® Directors' Privileges Package

The board has adopted the **Community Bank®** Directors' Privileges Package. The package is available to all directors, who can elect to avail themselves of the benefits based on their personal banking with the **Community Bank®** branch at Madeley, Western Australia. There is no requirement to own BEN shares and there is no qualification period to qualify to utilise the benefits. The package mirrors the benefits currently available to Bendigo and Adelaide Bank Limited shareholders. The total benefits received by the directors from the Directors' Privilege Package are \$20 for the year ended 30 June 2017 (2016: \$nil).

	2017	2016
	\$	\$

Note 22. Earnings per share

(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	28,697	12,020
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	Number	Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	775,009	775,009

Note 23. Events occurring after the reporting date

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

Note 24. Contingent liabilities and contingent assets

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

Note 25. Segment reporting

The economic entity operates in the service sector where it facilitates **Community Bank®** services in Madeley, Western Australia 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

Kingsway **Community Bank®** Branch
Shop 18B
168 Wanneroo Road
Madeley WA 6065

Principal Place of Business

Kingsway **Community Bank®** Branch
Shop 18B
168 Wanneroo Road
Madeley WA 6065

Notes to the financial statements (continued)

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.

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					
	2017 \$	2016 \$	2017 \$	2016 \$	2017 \$	2016 \$	2017 \$	2016 \$	2017 \$	2016 \$	2017 %	2016 %
Financial assets												
Cash and cash equivalents	75,536	708	239,797	266,501	-	-	-	-	999	338	1.80	3.08
Receivables	-	-	-	-	-	-	-	-	58,205	54,240	N/A	N/A
Financial liabilities												
Interest bearing liabilities	-	225,477	42,575	-	109,315	-	-	-	-	-	7.15	Nil
Payables	-	-	-	-	-	-	-	-	19,089	-	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.

Notes to the financial statements (continued)

Note 27. Financial instruments (continued)

Sensitivity Analysis (continued)

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

	2017	2016
	\$	\$
Change in profit/(loss)		
Increase in interest rate by 1%	1,634	417
Decrease in interest rate by 1%	(1,634)	(417)
Change in equity		
Increase in interest rate by 1%	1,634	417
Decrease in interest rate by 1%	(1,634)	(417)

Directors' declaration

In accordance with a resolution of the directors of KingswayCommunity 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.



Beverley Jane Errington,
Chairperson

Signed on the 18th of August 2017.

Independent audit report



61 Bull Street, Bendigo 3550
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Independent auditor's report to the members of Kingsway Community Financial Services Limited

Report on the audit of the financial statements

Our opinion

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

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

What we have audited

Kingsway Community Financial Services Limited's (the company) financial report comprises the:

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

Basis for opinion

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

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

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

Other information

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

Independent audit report (continued)

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

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

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

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

Directors' responsibility for the financial report

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

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

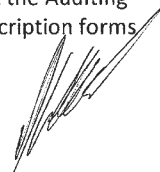
Auditor's responsibility for the audit of the financial report

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

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



Andrew Frewin Stewart
61 Bull Street, Bendigo, 3550
Dated: 18 August 2017



David Hutchings
Lead Auditor

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