Annual Report 2018

Kingsway Community Financial Services Limited

Kingsway **Community Bank**® Branch

ABN 48 104 124 638

Contents

Chairman's report

For year ending 30 June 2018

Well its seems that I am starting this message the same as last year with the fact that we have had some staffing changes in the branch. Laurice and Kyah have moved onto other things and we wish them well in whatever they choose to do. Vicki, Glynis and Dee are to be thanked for their strong commitment to supplying great service.

Our Board has also seen some changes with the retirement of Joe Hawkins and David Arkins. We have appointed one new Director Anouck Van Dyck who is very passionate about the community and what the **Community Bank**® branch can do to help. We are continuing to bring new Directors onto the Board as required to make sure that we have the best resources to make informed decisions and help with the growth of our Kingsway **Community Bank**® Branch.

Over the past 14 years Kingsway **Community Bank**® Branch has contributed over $609,000 back into the community through Sponsorship and Dividends paid to the shareholders. As customers and shareholder this is something you should be proud of and sharing with your family and friends so that they too can share in the story.

So, are you a customer? If not, why not?

It's the banking business which is critical to the community success of our **Community Bank**® branch. With everyone's banking business there's more to contribute to community projects and ongoing dividend payments so really that's a win-win especially with the great products and services we offer.

Here are some facts, we are the fifth largest bank, third most trusted company in Australia by Roy Morgan and number one in the Mozo Peoples Choice Award 2017 for customer service, so we must be doing something right.

I would like to thank the staff and Board because without them we would not have a bank. We continue to work with our partner Bendigo and Adelaide Bank Limited to make sure that we are a cohesive and well governed entity that can offer the best products at the best price in this very competitive market. We are constantly looking towards the future and what banking will look like and how this effects the community as we have your best interests at heart.

Thank you to everyone for your trust and support.

B Errington

Beverley Errington
Chairperson

Manager's report

For year ending 30 June 2018

Dear Shareholders,

I am delighted to be providing this report, as your recently appointed Kingsway **Community Bank**® Branch Manager.

Having worked in the Retail Banking industry for over 20 years, there is one thing that has stood out for me during my short tenure at Kingsway **Community Bank**® Branch, and that is the branch staff and Board members passion for our brand and how invested they are in ensuring that our unique and innovative message is shared to the broader community.

It has been a challenging year in terms of overall business growth. The competitive housing loan environment, along with legislative changes being implemented within the banking industry has resulted in less than ideal outcomes and results.

Over the past year Kingsway **Community Bank**® Branch has continued to support our local community groups – Calan Williams Racing, Padbury Netball Club, Women in Tennis and The Wanneroo Show. We wish all our community groups much success in 2019.

I would like to acknowledge the support from Kingsway Community Financial Services Limited Board. In particular, I would like to express my thanks to the team at Kingsway **Community Bank**® Branch, namely Glynis Watson and Deanne Christensen, for all their hard work and dedication to the group.

I believe that a focus on exceptional customer service and community involvement, along with the support of the staff, Board and shareholders will see us thrive as a business and result in stronger growth and outcomes. This will ensure that we continue to provide the support that our community needs.

Many thanks for the privilege of being the Branch Manager of your company.

Best wishes,

Vicki Petreski
Branch Manager

Bendigo and Adelaide Bank report

For year ending 30 June 2018

It's been 20 years since the doors to the first **Community Bank**® branch opened. And it has only been a few months since the latest, the 321st, **Community Bank**® branch opened its doors.

In the last 20 years, much has changed. A staggering 92 per cent of our customers do their banking online and we pay for goods and services on a range of mobile phones, our watches and even our fitness devices. Many are embracing this online world with a sense of excitement and confidence. Our model will be even more accessible to people right across Australia.

Despite the change many things have also remained constant through the last two decades. Commitment within communities remains as strong today as it has ever been; from our first **Community Bank**® branch to the most recent one, and the 319 in between.

This year, five of our **Community Bank**® branches are celebrating 20 years in business. Bendigo Bank has celebrated 160 years in business. We farewelled Managing Director Mike Hirst and welcomed into the MD role long-time Bendigo employee Marnie Baker.

Our **Be the change** online marketing campaign has been the most successful online marketing campaign ever run by our organisation. The premise behind **Be the change** is simple – it thanks individual customers for banking with their **Community Bank**® branch.

But it's not the Bank thanking the customers. It's not the staff, volunteer directors or shareholders thanking the customers. It's the kids from the local little athletics and netball clubs, it's the man whose life was saved by a **Community Bank**® funded defib unit, it's members of the local community choir and the animal rescue shelter. These people whose clubs and organisations have received a share of over $200 million in **Community Bank**® contributions, all because of people banking with their local **Community Bank**® branch.

Be the change has further highlighted the power of the model. For others, customers are important. For our **Community Bank**® network, customer support ensures our point of difference. It's the reason we can share in the revenue generated by their banking business. Without this point of difference, we would be just another bank.

But we're not, we're Bendigo Bank and we're Australia's only 'community bank', recently named by Roy Morgan Research as Australia's third most trusted brand and most trusted bank. As one of 70,000-plus **Community Bank**® company shareholders across Australia, these are outcomes we hope you too are proud of.

I'd like to thank you for your decision to support your local **Community Bank**® company as a shareholder. Your support has been vitally important to enhancing the prospects and outcomes within your community.

Without you, there would be no **Community Bank**® branch network in Australia.

We value your initial contribution and your ongoing support of your **Community Bank**® branch and your community. Thank you for continuing to play a role in helping your community **Be the change**.

Robert Musgrove
Bendigo and Adelaide Bank

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:

Beverley Jane Errington

Non-Executive Director/Chairperson

Occupation: Bookkeeper/Administrator

Qualifications, experience and expertise: Beverley has served on the board for 10 years, the last five of those as chairperson. Beverley still remains actively involved with all the day-to-day activities of the company. Beverley is also actively involved with other Clubs and Organisations such as the Wanneroo Agricultural Society which she has been the Treasurer for the last four years.

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

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

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

Directors (continued)

Suzanne Dodds

Non-Executive Director (Appointed 26 July 2017)

Occupation: Managing Director

Qualifications, experience and expertise: Suzanne has over 16 years of experience working as a Managing Director in start up and growth. During that time she also worked as ex-pat Executive Director in Sales and Marketing for 4 years in Seoul. BSc Econ MBA. Suzanne also splits her time between work and her 3 children.

Special responsibilities: Sponsorship Committee

Interest in shares: Nil

Anouck Van Dyck

Non-Executive Director (Appointed 31 October 2017)

Occupation: Account Manager

Qualifications, experience and expertise: Anouck is results-oriented with a strong track record of achievement whose skills encompass a wide range of disciplines including lead facilitation, change management systems, continuous process improvement, business development and strengthening stakeholder relationships. Anouck is involved with community engagement through a number of volunteer opportunities which include the City of Wanneroo Safety Working Group and she also works as an MC for Corporate events, fundraisers and Quiz Nights. Anouck also loves spending time on the water with her niece and nephew, and she is also learning to play the piano.

Special responsibilities: Sponsorship Committee

Interest in shares: Nil

David Anthony Arkins

Non-Executive Director (Resigned 26 June 2018)

Occupation: Commercial Advisor

Qualifications, experience and expertise: David is a chartered accountant with 15 years experience as an oil & 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

Joseph James Hawkins J.P.

Non-Executive Director (Resigned 28 November 2017)

Occupation: Company Director

Qualifications, experience and expertise: Has owned and run JJ Hawkins Group of companies for over 50 years. Member of Rotary Foundation for the past 41 years. Has been a contributor to various other community groups in the past.

Special responsibilities: Nil

Interest in shares: 12,501

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.

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 2018 $	Year ended 30 June 2017 $
28,451	28,697

Dividends

	Year ended 30 June 2018	
	Cents	$
Dividends paid in the year:		
- As recommended in the prior year report	3	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 22 to the financial statements. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the company's accounts, or the fixed salary of a full-time employee of the company, controlled entity or related body corporate.

Indemnification and insurance of directors and officers

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

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

Directors' meetings

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

	Board Meetings Attended		Committee Meetings Attended	
			Sponsorship & Marketing	
	A	B	A	B
Beverley Jane Errington	11	11	-	-
Peter Michael Burns	11	11	-	-
Anne Williams	11	11	2	2
Walton Ricky Smith	11	7	-	-
Suzanne Dodds1	10	5	2	1
Anouck Van Dyck2	7	5	2	2
Joseph James Hawkins3	5	5	-	-
David Anthony Arkins4	11	5	-	-

A - eligible to attend
B - number attended
1 - (Appointed 26 July 2017)
2 - (Appointed 31 October 2017)
3 - (Resigned 28 November 2017)
4 - (Resigned 26 June 2018)

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.

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 10.

Signed in accordance with a resolution of the board of directors at Madeley, Western Australia on 7 September 2018.

B Errington

Beverley Jane Errington,
Chairperson

Auditor's independence declaration

Partners in success
Chartered Accountants

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

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

As lead auditor for the audit of Kingsway Community Financial Services Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

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

Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550
Dated: 7 September 2018

David Hutchings
Lead Auditor

Taxation | Audit | Business Services

Financial statements

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

	Notes	2018 $	2017 $
Revenue from ordinary activities	4	729,908	778,520
Employee benefits expense		(324,487)	(355,558)
Charitable donations, sponsorship, advertising and promotion		(13,187)	(21,897)
Occupancy and associated costs		(149,262)	(151,159)
Systems costs		(33,747)	(34,690)
Depreciation and amortisation expense	5	(40,894)	(37,950)
Finance costs	5	(10,286)	(12,622)
General administration expenses		(118,802)	(125,033)
Profit before income tax expense		**39,243**	**39,611**
Income tax expense	6	(10,792)	(10,914)
Profit after income tax expense		**28,451**	**28,697**
Total comprehensive income for the year attributable to the ordinary shareholders of the company:		**28,451**	**28,697**

Earnings per share		**¢**	**¢**
Basic earnings per share	23	3.67	3.70

The accompanying notes form part of these financial statements.

Balance Sheet
as at 30 June 2018

	Notes	2018 $	2017 $
ASSETS			
Current assets			
Cash and cash equivalents	7	305,475	316,332
Trade and other receivables	8	63,862	66,449
Total current assets		**369,337**	**382,781**
Non-current assets			
Property, plant and equipment	9	258,646	259,529
Intangible assets	10	13,612	27,223
Total non-current assets		**272,258**	**286,752**
Total assets		**641,595**	**669,533**
LIABILITIES			
Current liabilities			
Trade and other payables	12	41,445	77,004
Borrowings	13	42,692	42,575
Provisions	14	8,672	9,097
Current tax liabilities	11	5,644	-
Total current liabilities		**98,453**	**128,676**
Non-current liabilities			
Provisions	14	4,505	2,325
Borrowings	13	75,821	109,315
Deferred tax liabilities	11	9,041	3,893
Total non-current liabilities		**89,367**	**115,533**
Total liabilities		**187,820**	**244,209**
Net assets		**453,775**	**425,324**
EQUITY			
Issued capital	15	775,009	775,009
Accumulated losses	16	(321,234)	(349,685)
Total equity		**453,775**	**425,324**

The accompanying notes form part of these financial statements.

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

	Notes	Issued capital $	Accumulated losses $	Total equity $
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	21	-	(23,250)	(23,250)
Balance at 30 June 2017		**775,009**	**(349,685)**	**425,324**
Balance at 1 July 2017		**775,009**	**(349,685)**	**425,324**
Total comprehensive income for the year		-	28,451	28,451
Transactions with owners in their capacity as owners:				
Shares issued during period		-	-	-
Costs of issuing shares		-	-	-
Dividends provided for or paid	21	-	-	-
Balance at 30 June 2018		**775,009**	**(321,234)**	**453,775**

The accompanying notes form part of these financial statements.

Statement of Cash Flows
for the year ended 30 June 2018

	Notes	2018 $	2017 $
Cash flows from operating activities			
Receipts from customers		808,556	846,978
Payments to suppliers and employees		(729,503)	(716,883)
Interest received		3,520	5,328
Interest paid		(10,286)	(12,622)
Net cash provided by operating activities	**17**	**72,287**	**122,801**
Cash flows from investing activities			
Payments for property, plant and equipment		(26,400)	(898)
Net cash used in investing activities		**(26,400)**	**(898)**
Cash flows from financing activities			
Proceeds from borrowings		-	180,000
Repayment of borrowings		(33,494)	(27,641)
Dividends paid	21	(23,250)	-
Net cash provided by/(used in) financing activities		**(56,744)**	**152,359**
Net increase/(decrease) in cash held		**(10,857)**	**274,262**
Cash and cash equivalents at the beginning of the financial year		316,332	42,070
Cash and cash equivalents at the end of the financial year	**7(a)**	**305,475**	**316,332**

The accompanying notes form part of these financial statements.

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.

AASB 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This accounting standard is not expected to have a material impact on the financial statements.

AASB 15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. This accounting standard is not expected to have a material impact on the financial statements.

None of these amendments to accounting standards issued by the 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.

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.

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

a) Basis of preparation *(continued)*

Application of new and amended accounting standards (continued)

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 $337,145, on an undiscounted basis (see Note 18).

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

Economic dependency - Bendigo and Adelaide Bank Limited

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank®** 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.

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

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.

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.

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

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 payable (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 entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

c) Income tax *(continued)*

Deferred tax (continued)

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

Current and deferred tax for the period

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

d) Employee entitlements

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

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

e) Cash and cash equivalents

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

f) Trade receivables and payables

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

g) Property, plant and equipment

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

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

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

- leasehold improvements	40	years
- plant and equipment	2.5 - 40	years
- motor vehicles	3 - 5	years

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

h) Intangibles

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

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

i) Payment terms

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

j) Borrowings

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

k) Financial instruments

Recognition and initial measurement

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

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

Derecognition

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

Classification and subsequent measurement

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

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

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

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

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

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

k) Financial instruments

Impairment (continued)

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

l) Leases

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

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

m) Provisions

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

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

n) Issued capital

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

o) Earnings per share

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

p) Goods and Services Tax

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

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

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

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 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.

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.

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.

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.

Note 4. Revenue from ordinary activities

	2018	2017
	$	$
Operating activities:		
- gross margin	571,823	585,029
- services commissions	83,533	121,009
- fee income	36,858	41,169
- market development fund	31,667	25,000
Total revenue from operating activities	723,881	772,207
Non-operating activities:		
- interest received	6,027	5,328
- sundry income	-	985
Total revenue from non-operating activities	6,027	6,313
Total revenues from ordinary activities	729,908	778,520

Note 5. Expenses

	2018	2017
Depreciation of non-current assets:		
- leasehold improvements	19,832	18,221
- plant and equipment	5,353	6,118
- motor vehicle	2,098	-
Amortisation of non-current assets:		
- franchise agreement	2,269	2,269
- franchise renewal fee	11,342	11,342
	40,894	37,950
Finance costs:		
- interest paid	10,286	12,622
Bad debts	229	615

Note 6. Income tax expense	2018	2017
	$	$
The components of tax expense comprise:		
- Current tax	5,644	-
- Movement in deferred tax	(2,745)	(2,201)
- Recoupment of prior year tax losses	7,893	13,115
	10,792	10,914
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows		
Operating profit	39,243	39,611
Prima facie tax on profit from ordinary activities at 27.5% (2017: 27.5%)	10,792	10,893
Add tax effect of:		
- non-deductible expenses	-	21
- timing difference expenses	2,744	2,201
	13,536	13,115
Movement in deferred tax	(2,744)	(2,201)
	10,792	10,914

Note 7. Cash and cash equivalents		
Cash at bank and on hand	105,475	76,535
Term deposits	200,000	239,797
	305,475	316,332

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	105,475	76,535
Term deposits	200,000	239,797
	305,475	316,332

Note 8. Trade and other receivables		
Trade receivables	54,552	58,205
Prepayments	6,803	8,244
Other receivables and accruals	2,507	-
	63,862	66,449

Note 9. Property, plant and equipment	2018	2017
	$	$
Leasehold improvements		
At cost	267,298	267,298
Less accumulated depreciation	(48,221)	(28,389)
	219,077	238,909
Plant and equipment		
At cost	30,592	29,715
Less accumulated depreciation	(14,448)	(9,095)
	16,144	20,620
Motor vehicle		
At cost	25,523	-
Less accumulated depreciation	(2,098)	-
	23,425	-
Total written down amount	258,646	259,529

Movements in carrying amounts:

Leasehold improvements		
Carrying amount at beginning	238,909	257,130
Additions	-	-
Disposals	-	-
Less: depreciation expense	(19,832)	(18,221)
Carrying amount at end	219,077	238,909
Plant and equipment		
Carrying amount at beginning	20,620	25,840
Additions	877	898
Disposals	-	-
Less: depreciation expense	(5,353)	(6,118)
Carrying amount at end	16,144	20,620
Motor vehicle		
Carrying amount at beginning	-	-
Additions	25,523	-
Disposals	-	-
Less: depreciation expense	(2,098)	-
Carrying amount at end	23,425	-
Total written down amount	258,646	259,529

Note 10. Intangible assets	2018	2017
	$	$
Franchise fee		
At cost	78,611	78,611
Less: accumulated amortisation	(76,342)	(74,074)
	2,269	4,537
Renewal processing fee		
At cost	56,713	56,713
Less: accumulated amortisation	(45,370)	(34,027)
	11,343	22,686
Total written down amount	13,612	27,223

Note 11. Tax		
Deferred tax assets		
- accruals	470	745
- employee provisions	3,624	3,141
- tax losses carried forward	-	7,893
	4,094	11,779
Deferred tax liability		
- accruals	689	-
- property, plant and equipment	12,446	15,672
	13,135	15,672
Net deferred tax liability	(9,041)	(3,893)
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	5,148	10,914

Note 12. Trade and other payables		
Trade creditors	12,509	19,089
Other creditors and accruals	28,936	57,915
	41,445	77,004

Note 13. Borrowings	2018	2017
	$	$
Current:		
Bank loans	42,692	42,575
Non-current:		
Bank loans	75,821	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 terns and conditions. Interest is charged at an annual percentage rate of 7.050%.

Note 14. Provisions		
Current:		
Provision for annual leave	8,672	9,097
Non-Current:		
Provision for long service leave	4,505	2,325

Note 15. Issued capital		
775,009 ordinary shares fully paid (2017: 775,009)	775,009	775,009

Rights attached to shares

(a) *Voting rights*

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

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

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

Note 15. Issued capital *(continued)*

Rights attached to shares *(continued)*

(b) *Dividends*

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

(c) *Transfer*

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

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

Prohibited shareholding interest

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

In summary, a person has a prohibited shareholding interest if they control or own 10% or more of the shares in the company (the "10% limit").

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

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

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

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

Note 16. Accumulated losses

	2018	2017
	$	$
Balance at the beginning of the financial year	(349,685)	(355,132)
Net profit from ordinary activities after income tax	28,451	28,697
Dividends provided for or paid	-	(23,250)
Balance at the end of the financial year	(321,234)	(349,685)

Note 17. 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	28,451	28,697
Non cash items:		
- depreciation	27,283	24,339
- amortisation	13,611	13,611
Changes in assets and liabilities:		
- (increase)/decrease in receivables	2,587	(3,651)
- (increase)/decrease in other assets	117	6,552
- increase/(decrease) in payables	(12,309)	49,245
- increase/(decrease) in provisions	1,755	115
- increase/(decrease) in tax liabilities	10,792	3,893
Net cash flows provided by operating activities	72,287	122,801

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	134,858	136,860
- between 12 months and 5 years	202,287	329,938
- greater than 5 years	-	-
	337,145	466,798

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 expired on 31 October 2017 and was not renewed.

Note 19. Auditor's remuneration

Amounts received or due and receivable by the auditor of the company for:		
- audit and review services	4,400	4,300
- non audit services	2,430	4,395
	6,830	8,695

Note 20. Director and related party disclosures

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

Beverley Jane Errington
Peter Michael Burns
Anne Williams
Walton Ricky Smith
Suzanne Dodds *(Appointed 26 July 2017)*
Anouck Van Dyck *(Appointed 31 October 2017)*
David Anthony Arkins *(Resigned 26 June 2018)*
Joseph James Hawkins *(Resigned 28 November 2017)*

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

Transactions with related parties:	2018 $	2017 $
Beverley Errington provided bookkeeping services during the period. All services were provided at market value.	30,360	9,000

Directors Shareholdings	2018	2017
Beverley Jane Errington	1,000	1,000
Peter Michael Burns	5,000	5,000
Anne Williams	-	-
Walton Ricky Smith	-	-
Suzanne Dodds *(Appointed 26 July 2017)*	-	-
Anouck Van Dyck *(Appointed 31 October 2017)*	-	-
David Anthony Arkins *(Resigned 26 June 2018)*	-	-
Joseph James Hawkins *(Resigned 28 November 2017)*	12,501	12,501

There was no movement in directors shareholdings during the year.

Note 21. Dividends provided for or paid

	2018 $	2017 $
a. Dividends paid during the year		
Prior year proposed final		
Unfranked dividend - 3 cents (2017: Nil cents) per share	23,250	-
b. Dividends proposed and recognised as a liability		
Current year final dividend		
Unfranked dividend - Nil (2017: 3 cents) per share	-	23,250

Note 21. Dividends provided for or paid *(continued)*	2018	2017
	$	$
c. Franking account balance		
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	-	-
- franking credits that will arise from payment of income tax as at the end of the financial year	6,207	-
- franking debits that will arise from the payment of dividends recognised as a liability at the end of the financial year	-	-
Franking credits available for future financial reporting periods:	6,207	-
- franking debits that will arise from payment of dividends proposed or declared before the financial report was authorised for use but not recognised as a distribution to equity holders during the period	-	-
Net franking credits available	6,207	-

Note 22. Key management personnel disclosures

The directors received remuneration including superannuation, as follows:

Beverley Jane Errington	10,950	20,000
Peter Michael Burns	2,000	3,000
Anne Williams	2,000	3,000
Walton Ricky Smith	2,000	3,000
Suzanne Dodds *(Appointed 26 July 2017)*	-	-
Anouck Van Dyck *(Appointed 31 October 2017)*	-	-
David Anthony Arkins *(Resigned 26 June 2018)*	-	-
Joseph James Hawkins *(Resigned 28 November 2017)*	-	3,000
	16,950	32,000

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 $nil for the year ended 30 June 2018 (2017: $20).

Note 23. Earnings per share	2018	2017
	$	$
(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	28,451	28,697
	Number	Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	775,009	775,009

Note 24. 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 25. 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 26. 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 27. 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
Kingsway Community Bank	Kingsway Community Bank
Shop 18B	Shop 18B
168 Wanneroo Road	168 Wanneroo Road
Madeley WA 6065	Madeley WA 6065

Note 28. 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	99,631	76,536	200,000	239,797	-	-	-	-	5,844	999	1.95	1.80
Receivables	-	-	-	-	-	-	-	-	54,552	58,205	N/A	N/A
Financial liabilities												
Interest bearing liabilities	-	-	42,692	42,575	75,821	109,315	-	-	-	-	7.04	7.15
Payables	-	-	-	-	-	-	-	-	12,509	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.

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%	1,811	1,634
Decrease in interest rate by 1%	(1,811)	(1,634)
Change in equity		
Increase in interest rate by 1%	1,811	1,634
Decrease in interest rate by 1%	(1,811)	(1,634)

Directors' declaration

In accordance with a resolution of the directors of Kingsway Community 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.

Beverley Jane Errington, Chairperson

Signed on the 7th of September 2018.

Independent audit report

Partners in success
Chartered Accountants

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

Independent auditor's report to the members of 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 2018 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.

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: 7 September 2018

David Hutchings
Lead Auditor

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