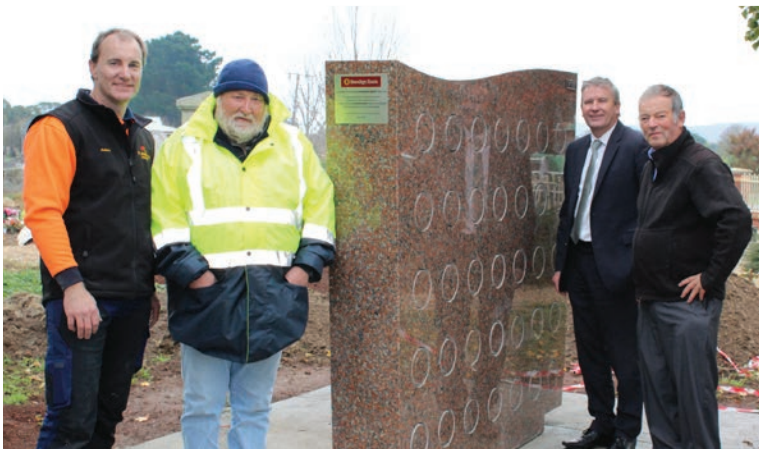
Lancefield & Romsey Community Financial Services Limited

ABN 44 093 517 714

2018 **Annual Report**



Lancefield and Romsey
Community Bank® branches

Contents

Chair's report

For year ending 30 June 2018

I am delighted to be reporting to you for the first time as Chairman of our **Community Bank**® branches in Lancefield and Romsey. In a year where many financial institutions were under sustained scrutiny and attack through the Financial Services Royal Commission, the Bendigo and Adelaide Bank Limited was in fact voted number three in the top 10 of Australia's most trusted brands. This is a significant achievement and an attribute that we strive to deliver through our **Community Bank**® branches. It doesn't just happen though – it is earned through hard work, commitment and passion for the communities which we serve. This is the 20th anniversary of the launch of the **Community Bank**® model which has now grown to over 321 branches throughout Australia and a reminder of how much has been achieved to allow significant contributions to our communities. Our continued commitment to our community has once again resulted in us achieving growth, strong financial performance and providing excellent customer service. This is built on the trust that we earn in the community and one that we deliver with immense pride.

During the year, the NAB (National Australia Bank) closed its Romsey branch, resulting in our **Community Bank**® branch being the only bank in town, a story reminiscent with the 1990s and the origins of the **Community Bank**® model. This is a great opportunity for us to work more closely with our communities and demonstrate our ongoing commitment to their growth and prosperity. With continued business growth, our net profitability has increased 23% during the financial year, allowing us to declare an annual dividend of 7 cents per share, while doubling our investments in the community to over $220,000 in the year.

This growth and the dedication of our branch teams have resulted in a gross profit before the payment of community grants and sponsorships of approximately $600,000, an improvement on last years results. This result once again demonstrates the wealth and prosperity that can be generated and retained in our communities through our collective ability to work together to achieve great things. And it gives us great joy to report our continued contribution to the community. This doesn't just happen. It comes about through the continued trust and faith that our shareholders and customers continue to show in us by bringing their business to our **Community Bank**® branches. Thank you to all.

Our continued financial performance allowed us to invest another $220,000 towards community groups, clubs and events, making the total amount contributed back to the community since we first opened in 2001, to over $1.3 million. It is this investment and co-contribution to our communities' wealth that is the foundation of the **Community Bank**® model. A large proportion of our profits are invested back into the community in the form of grants and sponsorships. This allows our community to grow, having access to better services, bringing more customers to the doors of our **Community Bank**® branches in Romsey and Lancefield to allow us to continue our contribution. The more customers we have, the more we can invest in the community. It's a virtuous and incredibly powerful circle.

In fact, if you include employment costs and dividends (with virtually all of our shareholders having a community connection), of the $1.8 million that our **Community Bank**® branches earn in revenue, approximately $1.1 million is returned to the community.

This year our Community Investment Program (grants and sponsorships) contributed to 65 local groups. We continued our regular support of local schools and emergency services (approximately $11,000 to each group). We made significant investments to sporting clubs and associations to allow them to upgrade their equipment and facilities. A particular highlight was the contribution of $80,000 to the Romsey Ecotherapy Park for the Therapeutic Sensory Space. The official opening of the Active Nature Space was held on 30 August 2018 and we look forward to the opening of the Sensory Space upon completion. We contributed $10,000 to Lancefield Neighborhood House for the renovation of the Playgroup and Out of School Hours Care building and $12,000 to St Mary's Primary school for a shade sail.

Chair's report (continued)

We recently engaged with the Macedon Ranges Shire Council (MSRC) through their 'Let's talk Romsey' forum, as they seek to identify the needs of our fast growing communities. The forum explored opportunities in infrastructure, transport and facilities to service our communities as they grow apace. We look forward to collaborating with the MRSC and the community to identify opportunities where the **Community Bank®** branches can contribute to these initiatives and better serve our communities. This is a truly exciting time for our **Community Bank®** branches as we deepen our commitment and contribution to our communities.

During the year, the Lancefield **Community Bank®** Branch has undergone extensive renovations to make it more inviting and comfortable for both customers and the branch team. Redesigned under Bendigo Bank's 'Network of the Future' concept, the layout incorporates technology to make transactions more efficient and allows staff to spend more time with customers. The official opening of the renovated Lancefield **Community Bank®** Branch occurred on 12 February 2018.

This is Michael O'Gorman's first full year as Senior Branch Manager leading our **Community Bank®** branches. Our continued growth, profitability and contribution to our community, demonstrates Michael's commitment to the branches, the customers and the branch teams. Our thanks and congratulations to Michael and both of our branch teams for another outstanding year supporting our business. Also, I would like to thank Sally Peeler, our Marketing Consultant, for her tireless work on our Community Investment Program and Georgie Davie for her dedicated work as our Company Secretary and Executive Officer.

In March, the retirement of Graeme 'Charlie' Walker as a voluntary Director on the Board of Lancefield and Romsey Community Financial Services Limited marked the end of an era. Charlie grew up in Lancefield and was an enthusiastic member of the steering committee to establish the **Community Bank®** branches in Lancefield and Romsey in the late 1990s. He has made an enormous contribution to the bank since joining the inaugural Board in 2000. As an esteemed and highly experienced Journalist, he was the unofficial wordsmith of the **Community Bank®** branches. His contribution will be greatly missed. At the same time, after five years of dedicated service as a Director, Michael Meehan also resigned from the Board. Michael was instrumental in getting the 'Lancefield Megafauna Festival' on the map with the strong support of the **Community Bank®** branches. He brought a wealth of knowledge and expertise to the role of Director and made significant contribution to the community.

During the year Dave Plunkett stepped down as Chair after two years of outstanding work leaving very big shoes to fill. Fortunately, Dave is continuing as a Director on the Board. We also appointed Donna Fabris, an existing Director, as Deputy Chair of the Board. I would like to sincerely thank all of our Directors for their hard work and dedication to our **Community Bank®** branches and for the enthusiast contribution they continue to make to ensure that we are feeding prosperity back into the community not feeding off it.

It all began with you, our shareholders. Your faith, trust and commitment to our community allowed these **Community Bank®** branches to begin. Thank you. With your support we will continue to grow and prosper and I very much look forward to building the wealth and prosperity of our community together.

S.M. Ewart

Suzie Ewart
Chair

Senior Manager's report

For year ending 30 June 2018

This year we saw the extensive renovation of Lancefield **Community Bank**® Branch to the 'Network of the Future' concept. The bright spacious layout also provides an additional office for privacy.

I would like to congratulate and thank the teams at both our branches and our customers for embracing this change and the other disruptions we encountered during the renovation.

Government regulations around investment property lending, had a dramatic effect on our lending book, with clients choosing to sell their investment properties and reducing debt. There was also a reduction in new investment property loan applications.

Both **Community Bank**® branches still continue to grow in lending and deposits, but at a lower rate than previous years – Lancefield by $2.44 million and Romsey by $2.4 million. This is largely due to our communities embracing us as their bank of choice, not for just lending and deposits, but by taking out insurance, talking to our financial planners and discussing their retirement plans with our consultants.

With the NAB closing in Romsey, we welcomed over 210 new customers, and we expect this to continue to rise. With the new subdivision, Autumn Rise having been totally sold, and new residents about to build their new homes, we hope to assist them with their finance.

Our increased profitability comes as a benefit to our communities. We were able to support projects such as the Ecotherapy Park, Relay for Life, both Mechanics Institutes and sponsorship of many of the local sporting clubs and the schools of both towns.

The more successful our customers are, the more successful our local community will be, which in turn makes our **Community Bank**® branches successful.

Congratulations and thank you to our volunteer Board of Directors for all their hard work, and another successful year.

And for anyone who hasn't experienced our friendly, professional service, please call in for a friendly chat about what we can do for you. If you are a customer, please tell your colleagues and neighbours who haven't yet made the change.

Michael O'Gorman
Senior Manager

Directors' report

For the financial year ended 30 June 2018

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

Directors

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

Suzanne Ewart

Chairperson (Appointed 4 June 2018), Director (Appointed 1 July 2017)

Occupation: Company Director and Business Advisor

Qualifications, experience and expertise: B. of Economics, CPA and Fellow of the Australian Institute of Company Directors, Suzanne is a Company Director and business adviser with a strong background in strategy, treasury, risk management and finance for some of Australia's major ASX listed companies, including NAB, BTR Nylex, Pacific Dunlop, Fosters Group and Woodside Petroleum. She has served on several boards and has expansive corporate governance and leadership skills drawn from many years' experience in large global businesses. Her board and business experience cover a range of sectors including health, biotech, education, financial services and infrastructure. She also holds directorships in TT Line Pty Ltd, .au Domain Administration Ltd and Dexus Wholesale Property Fund Ltd.

Special responsibilities: Previous Chair of Governance & Risk Panel, member of People & Performance Panel and member of Finance & Audit Panel.

Interest in shares: Nil

David Ross Plunkett

Director, Chairperson (until 4 June 2018)

Occupation: Lawyer

Qualifications, experience and expertise: David has been a practicing Lawyer since graduating with a LLB in 1994. He has been the General Counsel and Company Secretary for Qenos Pty Ltd since 2001, being responsible for all legal and governance related matters. David has lived in Lancefield since 2003. He has two children that attend schools in the Macedon Region and is Team Manager for the U14 Romsey Football team.

Special responsibilities: Nil

Interest in shares: Nil

Timothy Gerard McCarthy

Treasurer

Occupation: Accountant

Qualifications, experience and expertise: Tim is a Certified Practising Accountant B. Bus (Bus Admin) and Director of Sage Business Group, a local Accounting firm with the Head Office located in Sunbury. Tim holds his CPA Public Practice Certificate and is a Registered Tax Agent and Financial Planning Authorised Representative (FPAA) of McMahon Super Strategies Pty Ltd. He was LRCFSL Chairperson from 1 August 2011 to 31 January 2016. He is the former President of Romsey Football Netball Club Inc. Tim is former President, Secretary and Treasurer of Romsey Cricket Club Inc and is now a Life Member.

Special responsibilities: Chair of Finance & Audit Panel

Interest in shares: 12,000

Directors (continued)

Russell David Pattinson

Director

Occupation: Management Consultant & Business Owner

Qualifications, experience and expertise: Russell has comprehensive agribusiness experience alongside his B. Ag. Science (Hon) and Masters of Applied Science. He is a Director of a private Management Consulting Company and current Chairperson of various Australian industry committees. He has many local sporting, community and business interests.

Special responsibilities: Chair of the Marketing & Community Investment Panel.

Interest in shares: 3,000

Donna Gay Fabris

Director

Occupation: Manager - Healthcare

Qualifications, experience and expertise: With 30 years experience in the Healthcare sector, Donna brings broad management and leadership skills to her Directorship. Currently Managing Director of her own, award-winning, mobile Healthcare company, she also holds a special interest in Governance and Finance. Donna has broad Board experience locally, and is an active member of her local community. Has also been a Director for Cobaw Community Health Service.

Special responsibilities: Chair of People & Performance Panel, member of the Governance & Risk Panel. EBA Board Representative.

Interest in shares: Nil

Robert William Bryant

Director

Occupation: Business Owner/Operator

Qualifications, experience and expertise: Robert was a Director on the Board of a public company from 1996 to 1999. Robert brings his extensive local community awareness and retail expertise to his Directorship, having been a local Hardware Owner/Operator since 2000.

Special responsibilities: Co-Chair of Property Panel

Interest in shares: 3,750

Antony James Ede

Director (Appointed 1 July 2017)

Occupation:Segment Business Manager APAC

Qualifications, experience and expertise: Tony has extensive experience in business management, sales and marketing management, business development and P&L management in Australian and International markets. He has managed start-ups and established business and business units in Australia, Indonesia, China and the Middle East. He completed an MBA specialising in International Marketing and Business Management Deakin University in 2010 and Tony and his wife have lived in Romsey since beginning of 2013. He is currently on the Arts & Culture committee of the Romsey & Regional Business and Tourism Assoc. and is an active member in other community projects such Five Mile Creek Clean Up group.

Special responsibilities: Member of the People & Performance and Marketing & Community Investment Panels.

Interest in shares: Nil

Directors (continued)

Damien Wayne Tyrrell

Director (Appointed 1 July 2017)

Occupation: Business Development & Marketing Director

Qualifications, experience and expertise: Damien brings his experience in the fields of information communications technology, business development, marketing, commercial and general business management to his directorship. He has a MBA, as well as having been active in social welfare, asset management and economic development committees and is a JP. He served in the Australian Military for 13 years, and from 2000 has held senior leadership roles in several multi-national companies.

Special responsibilities: Member of the Property and Finance & Audit Panels.

Interest in shares: Nil

Georgia Morgan

Director (Appointed 1 July 2017)

Occupation: Senior Manager Financial Markets

Qualifications, experience and expertise: Georgia has more than 25 years' experience in the banking industry. Her roles have ranged across Treasury, Corporate Finance, Marketing and Sales. Georgia holds a B. of Economics and a Masters of App. Finance. She is also a graduate and Member of the Australian Institute of Company Directors. She is an active member in the local community, most recently as a non executive board member in the health industry and also having served as a past Treasurer for the Macedon Ranges Vignerons Association and Lancefield Football Netball Club.

Special responsibilities: Member of the Finance & Audit and Marketing & Community Investment Panels.

Interest in shares: Nil

Kenneth John Allender

Director (Resigned 7 September 2018)

Occupation: Retired

Qualifications, experience and expertise: B. Bus. (Accounting). Ken brings his extensive experience in senior managerial positions (Bulk Liquid Fuels Distribution & associated Finance activities) within the Australian and NZ Oil Industry, to his Directorship. He is an active member of his local community and is currently Treasurer with Deep Creek Landcare and Treasurer for the Lancefield Mercury.

Special responsibilities: Co-Chair of Property Panel and member of Finance & Audit Panel.

Interest in shares: 11,100

Graeme James Walker

Director (Resigned 20 March 2018)

Occupation: Journalist

Qualifications, experience and expertise: Graeme has considerable past newspaper experience as a Journalist, leading into a senior role in Government, Media Liaison and Issues Management. He has a sporting interest in cricket administration, as President of Moonee Valley Cricket Club and a life member of his club and the North West Metropolitan Cricket Association.

Special responsibilities: Member of Marketing & Community Investment Panel.

Interest in shares: 4,660

Directors (continued)

Michael Francis Meehan

Director (Resigned 5 March 2018)

Occupation: Retired

Qualifications, experience and expertise: Michael is a retired Emeritus University Professor with Deakin University (Communication and Creative Arts) - BA (Monash), LLB (Adelaide), PhD (Cambridge). He was Head of School and Deputy Dean (Faculty of Arts, Deakin) and is a Novelist (four novels, NSW Premier's Prize 2000). Michael is the former President of Deep Creek Landcare and Former Chair and committee member of the Lancefield Megafauna Festival. He is the former Chair of Adelaide Writers Week and worked in London for many years in Editing and Marketing for Edward Arnold Publishers (London).

Special responsibilities: Was Company Secretary until February 2017. Chair of Governance & Risk Panel and member of Board Recruitment & Succession Panel.

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 Georgina Mary Davie. Georgina was appointed to the position of secretary on 6 February 2017.

Georgina has a 20 year career in Human Resources and executive administration roles including project roles for AXA Australia and Note Printing Australia (RBA). She was Company Secretary of NorCen FSL and in 2016 she became Executive Officer for Lancefield & Romsey Community FSL and on 6 February 2017 she also undertook the role of Company Secretary.

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.

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		Panel Meetings Attended									
			Finance & Audit		Governance & Risk		People & Performance		Property		Marketing & Community Investment	
	A	B	A	B	A	B	A	B	A	B	A	B
Suzanne Ewart 1	10	10	2	1	3	3	8	8	-	-	-	-
David Ross Plunkett	10	8	-	-	-	-	-	-	-	-	-	-
Timothy Gerard McCarthy	10	8	2	2	-	-	-	-	-	-	-	-
Russell David Pattinson	10	9	-	-	-	-	-	-	-	-	7	6
Donna Gay Fabris	10	8	-	-	3	3	8	8	-	-	-	-
Robert William Bryant	10	9	-	-	-	-	-	-	8	8	-	-
Antony James Ede 1	10	8	-	-	-	-	8	5	-	-	6	4
Damien Wayne Tyrrell 1	10	9	2	1	-	-	-	-	8	6	-	-
Georgia Morgan 1	10	9	2	2	-	-	-	-	-	-	6	4
Kenneth John Allender 2	10	9	2	2	-	-	-	-	8	8	-	-
Graeme James Walker 3	7	7	-	-	-	-	-	-	-	-	5	-
Michael Francis Meehan 4	7	6	-	-	2	2	-	-	-	-	5	4

A - eligible to attend 1 - (Appointed 1 July 2017) 3 - (Resigned 20 March 2018)
B - number attended2 - (Resigned 7 September 2018) 4 - (Resigned 5 March 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, in accordance with the advice received from the finance & audit committee and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 11.

Signed in accordance with a resolution of the board of directors at Lancefield, Victoria on 28 August 2018.

S.M. Ewart.

Suzanne Ewart,
Chair

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 Lancefield & Romsey Community Financial Services Limited

As lead auditor for the audit of Lancefield & Romsey 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: 28 August 2018

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 2018

	Notes	2018 $	2017 $
Revenue from ordinary activities	4	1,813,395	1,672,968
Employee benefits expense		(811,059)	(784,122)
Charitable donations, sponsorship, advertising and promotion		(167,571)	(160,471)
Occupancy and associated costs		(95,489)	(77,414)
Systems costs		(56,894)	(51,235)
Depreciation and amortisation expense	5	(53,455)	(58,452)
Finance costs	5	(7,789)	(9,713)
General administration expenses		(166,274)	(160,764)
Profit before income tax expense		**454,864**	**370,797**
Income tax expense	6	(121,380)	(101,971)
Profit after income tax expense		**333,484**	**268,826**

Earnings per share		**¢**	**¢**
Basic earnings per share	24	33.00	26.60

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	560,533	251,125
Trade and other receivables	8	152,657	153,677
Total current assets		**713,190**	**404,802**
Non-current assets			
Property, plant and equipment	9	1,483,850	1,316,675
Intangible assets	10	53,660	75,638
Deferred tax asset	11	12,618	24,241
Total non-current assets		**1,550,128**	**1,416,554**
Total assets		**2,263,318**	**1,821,356**
LIABILITIES			
Current liabilities			
Trade and other payables	12	305,698	100,791
Current tax liabilities	11	18,389	11,293
Borrowings	13	46,104	40,655
Provisions	14	99,440	89,895
Total current liabilities		**469,631**	**242,634**
Non-current liabilities			
Borrowings	13	92,948	140,127
Provisions	14	11,972	12,563
Total non-current liabilities		**104,920**	**152,690**
Total liabilities		**574,551**	**395,324**
Net assets		**1,688,767**	**1,426,032**
EQUITY			
Issued capital	15	667,869	667,869
Retained earnings	16	1,020,898	758,163
Total equity		**1,688,767**	**1,426,032**

The accompanying notes form part of these financial statements.

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

	Notes	Issued capital $	Retained earnings $	Total equity $
Balance at 1 July 2016		667,869	560,086	1,227,955
Total comprehensive income for the year		-	268,826	268,826
Transactions with owners in their capacity as owners:				
Shares issued during period		-	-	-
Costs of issuing shares		-	-	-
Dividends provided for or paid	22	-	(70,749)	(70,749)
Balance at 30 June 2017		**667,869**	**758,163**	**1,426,032**
Balance at 1 July 2017		667,869	758,163	1,426,032
Total comprehensive income for the year		-	333,484	333,484
Transactions with owners in their capacity as owners:				
Shares issued during period		-	-	-
Costs of issuing shares		-	-	-
Dividends provided for or paid	22	-	(70,749)	(70,749)
Balance at 30 June 2018		**667,869**	**1,020,898**	**1,688,767**

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		1,986,198	1,853,506
Payments to suppliers and employees		(1,456,939)	(1,418,761)
Interest received		4,618	1,075
Interest paid		(7,789)	(9,859)
Income taxes paid		(102,661)	(69,041)
Net cash provided by operating activities	**17**	**423,427**	**356,920**
Cash flows from investing activities			
Payments for property, plant and equipment		(1,540)	(7,028)
Proceeds from sale of property, plant and equipment		-	10,455
Payments for intangible assets		-	(42,114)
Net cash used in investing activities		**(1,540)**	**(38,687)**
Cash flows from financing activities			
Repayment of borrowings		(41,730)	(41,204)
Dividends paid	22	(70,749)	(70,749)
Net cash used in financing activities		**(112,479)**	**(111,953)**
Net increase in cash held		**309,408**	**206,280**
Cash and cash equivalents at the beginning of the financial year		251,125	44,845
Cash and cash equivalents at the end of the financial year	**7(a)**	**560,533**	**251,125**

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2018

Note 1. Summary of significant accounting policies

a) Basis of preparation

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

Compliance with IFRS

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

Critical accounting estimates

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

Historical cost convention

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

Comparative figures

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

Application of new and amended accounting standards

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

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.

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 $51,020, on an undiscounted basis (see Note 19).

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®** branches at Lancefield and Romsey, Victoria.

The branches operate as a franchise of Bendigo and Adelaide Bank Limited, using the name "Bendigo Bank" and the logo and system of operations of Bendigo and Adelaide Bank Limited. The company manages the **Community Bank®** branches on behalf of Bendigo and Adelaide Bank Limited, however all transactions with customers conducted through the **Community Bank®** branches are effectively conducted between the customers and Bendigo and Adelaide Bank Limited.

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

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

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

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

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

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

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.

Note 1. Summary of significant accounting policies (continued)

b) Revenue (continued)

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.

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).

Note 1. Summary of significant accounting policies (continued)

c) Income tax (continued)

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.

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 form 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.

Note 1. Summary of significant accounting policies (continued)

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:

- buildings 40 years
- leasehold improvements 5 - 15 years
- plant and equipment 2.5 - 40 years
- motor vehicle 3 - 5 years

h) Intangibles

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

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

i) Payment terms

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

j) Borrowings

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

k) Financial instruments

<u>Recognition and initial measurement</u>

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.

<u>Derecognition</u>

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. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Note 1. Summary of significant accounting policies (continued)

k) Financial instruments (continued)

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) Financial liabilities

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

Impairment

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

l) Leases

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

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

m) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions 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.

Note 1. Summary of significant accounting policies (continued)

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.

Note 2. Financial risk management (continued)

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.

Note 3. Critical accounting estimates and judgements (continued)

Impairment of assets

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

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

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

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

Fair value measurement

Some of the company's assets and liabilities are measured at fair value for financial reporting purposes. The board of directors determine the appropriate valuation techniques and inputs for fair value measurements.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs are unobservable inputs for the asset or liability.

In estimating the fair value of an asset or a liability, the company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the company engages third party qualified valuers to perform the valuation.

Note 4. Revenue from ordinary activities

	2018 $	2017 $
Operating activities:		
- gross margin	1,552,476	1,361,387
- services commissions	60,411	109,809
- fee income	109,665	118,057
- ATM income	31,424	28,473
- market development fund	51,667	54,167
- other revenue	3,021	-
Total revenue from operating activities	**1,808,664**	**1,671,893**
Non-operating activities:		
- interest received	4,731	1,075
Total revenue from non-operating activities	**4,731**	**1,075**
Total revenues from ordinary activities	**1,813,395**	**1,672,968**

Note 5. Expenses

	2018 $	2017 $
Depreciation of non-current assets:		
- buildings	18,305	18,306
- leasehold improvements	1,606	1,521
- plant and equipment	11,565	14,558
- motor vehicle	-	2,087
Amortisation of non-current assets:		
- franchise agreement	3,944	3,944
- franchise renewal fee	18,035	18,036
	53,455	**58,452**
Finance costs:		
- interest paid	**7,789**	**9,713**
Bad debts	**615**	**(121)**
Loss on disposal of asset	**12,046**	**5,855**

	2018 $	2017 $

Note 6. Income tax expense

	2018 $	2017 $
The components of tax expense comprise:		
- Current tax	113,462	102,101
- Movement in deferred tax	11,623	(130)
- Under/over provision in respect to prior years	(3,705)	-
	121,380	**101,971**
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows		
Operating profit	454,864	370,797
Prima facie tax on profit from ordinary activities at 27.5% (2017: 27.5%)	124,265	101,969
Add tax effect of:		
- non-deductible expenses	3,313	1,610
- timing difference expenses	(14,116)	(1,478)
	113,462	**102,101**
Movement in deferred tax	11,623	(130)
Under/over provision in respect to prior years	(3,705)	-
	121,380	**101,971**

Note 7. Cash and cash equivalents

	2018 $	2017 $
Cash at bank and on hand	310,533	151,125
Term deposits	250,000	100,000
	560,533	**251,125**
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	310,533	151,125
Term deposits	250,000	100,000
	560,533	**251,125**

Note 8. Trade and other receivables

	2018 $	2017 $
Trade receivables	136,935	135,812
Prepayments	13,167	13,951
Other receivables and accruals	2,555	3,914
	152,657	**153,677**

Note 9. Property, plant and equipment

	2018 $	2017 $
Land and buildings		
Freehold land		
At fair value	850,000	850,000
Buildings		
At fair value	424,027	424,027
Less accumulated depreciation	(47,999)	(29,694)
	376,028	**394,333**
Leasehold improvements		
At cost	215,957	117,894
Less accumulated depreciation	(95,678)	(104,723)
	120,279	**13,171**
Plant and equipment		
At cost	206,895	116,958
Less accumulated depreciation	(69,352)	(57,787)
	137,543	**59,171**
Motor vehicles		
At cost	-	-
Less accumulated depreciation	-	-
	-	**-**
Total written down amount	**1,483,850**	**1,316,675**
Movements in carrying amounts:		
Land		
Carrying amount at beginning	850,000	850,000
Additions	-	-
Disposals	-	-
Less: depreciation expense	-	-
Carrying amount at end	**850,000**	**850,000**
Buildings		
Carrying amount at beginning	394,333	412,639
Additions	-	-
Disposals	-	-
Less: depreciation expense	(18,305)	(18,306)
Carrying amount at end	**376,028**	**394,333**

	2018 $	2017 $
Note 9.Property, plant and equipment (continued)		
Leasehold improvements		
Carrying amount at beginning	13,171	14,692
Additions	120,760	-
Disposals	(12,046)	-
Less: depreciation expense	(1,606)	(1,521)
Carrying amount at end	**120,279**	**13,171**
Plant and equipment		
Carrying amount at beginning	59,171	66,701
Additions	89,937	7,028
Disposals	-	-
Less: depreciation expense	(11,565)	(14,558)
Carrying amount at end	**137,543**	**59,171**
Motor vehicles		
Carrying amount at beginning	-	18,396
Additions	-	-
Disposals	-	(16,309)
Less: depreciation expense	-	(2,087)
Carrying amount at end	**-**	**-**
Total written down amount	**1,483,850**	**1,316,675**

Note 10. Intangible assets

Franchise fee		
At cost	151,290	151,290
Less: accumulated amortisation	(141,531)	(137,588)
	9,759	**13,702**
Renewal processing fee		
At cost	188,028	188,028
Less: accumulated amortisation	(144,127)	(126,092)
	43,901	**61,936**
Total written down amount	**53,660**	**75,638**

Note 11. Tax

	2018 $	2017 $
Current:		
Income tax payable	**18,389**	**11,293**
Non-Current:		
Deferred tax assets		
- accruals	1,030	5,217
- employee provisions	30,638	28,176
	31,668	**33,393**
Deferred tax liability		
- accruals	635	154
- property, plant and equipment	18,415	8,998
	19,050	**9,152**
Net deferred tax asset	**12,618**	**24,241**
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	**11,623**	**(130)**

Note 12. Trade and other payables

	2018 $	2017 $
Current:		
Trade creditors	244,240	12,359
Other creditors and accruals	61,458	88,432
	305,698	**100,791**

Note 13. Borrowings

	2018 $	2017 $
Current:		
Bank loans	**46,104**	**40,655**
Non-Current:		
Bank loans	**92,948**	**140,127**

The bank loan was an interest only loan that then became repayable monthly with the final instalment due on 17 March 2035. Interest is recognised at an average rate of 4.89%. The loan is secured by a first mortgage over the property located at 105 Main Street, Romsey.

Note 14. Provisions

	2018 $	2017 $
Current:		
Provision for annual leave	44,477	33,928
Provision for long service leave	54,963	55,967
	99,440	**89,895**
Non-Current:		
Provision for long service leave	**11,972**	**12,563**

Note 15. Issued capital

	2018 $	2017 $
1,010,700 ordinary shares fully paid (2017: 1,010,700)	970,700	970,700
Less: return of capital	(252,675)	(252,675)
Less: equity raising expenses	(50,156)	(50,156)
	667,869	**667,869**

Rights attached to shares

(a) Voting rights

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

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

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

(b) Dividends

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

(c) Transfer

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

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

Note 15. Issued capital (continued)

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.

	2018 $	2017 $

Note 16. Retained earnings

	2018 $	2017 $
Balance at the beginning of the financial year	758,163	560,086
Net profit from ordinary activities after income tax	333,484	268,826
Dividends provided for or paid	(70,749)	(70,749)
Balance at the end of the financial year	**1,020,898**	**758,163**

Note 17. Statement of cash flows

Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities

	2018 $	2017 $
Profit from ordinary activities after income tax	333,484	268,826
Non cash items:		
- depreciation	31,476	36,472
- amortisation	21,979	21,980
- loss on disposal of asset	12,046	5,855

	2018 $	2017 $
Note 17. Statement of cash flows (continued)		
Changes in assets and liabilities:		
- (increase)/decrease in receivables	1,020	(2,825)
- decrease in other assets	11,623	21,637
- increase in payables	(4,251)	12,331
- increase/(decrease) in provisions	8,954	(18,649)
- increase in current tax liabilities	7,096	11,293
Net cash flows provided by operating activities	**423,427**	**356,920**

Note 18. Fair value measurement

This section explains the judgements and estimates made in determining the fair values of the company's assets that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the applicable assets have been classified into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

At 30 June 2018	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
Recurring fair value measurements:				
Property, Plant and Equipment				
Freehold land	-	850,000	-	850,000
Buildings	-	380,000	-	380,000
Plant and equipment	-	-	-	-
	-	**1,230,000**	**-**	**1,230,000**
Total assets at fair value	**-**	**1,230,000**	**-**	**1,230,000**

At 30 June 2017	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
Recurring fair value measurements:				
Property, Plant and Equipment				
Freehold land	-	850,000	-	850,000
Buildings	-	380,000	-	380,000
Plant and equipment	-	-	-	-
	-	**1,230,000**	**-**	**1,230,000**
Total assets at fair value	**-**	**1,230,000**	**-**	**1,230,000**

Note 18. Fair value measurement (continued)

There were no transfers between Level 1 and Level 2 during the reporting period. The company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

- Level 1: The fair value of available-for-sale financial assets traded in active markets is based on the quoted market price at the close of business at the end of the reporting period.
- Level 2: The fair value of property, plant and equipment is based on a valuation performed by WBP Property Group on 22 October 2014 using quoted prices for similar assets in an active market. The property is due to for its next valuation on 22 October 2017.
- Level 3: There were no fair value measurements by the Level 3 fair value hierarchy.

	2018 $	2017 $

Note 19. 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	20,808	16,547
- between 12 months and 5 years	43,350	66,188
- greater than 5 years	-	1,379
	64,158	**84,114**

The operating lease for the Lancefield branch is a non-cancellable lease with a five-year term which is due to expire in July 2021. Rent payable monthly in advance.

The operating lease for the Romsey branch was terminated in June 2015. The branch now operates from a freehold premises owned by the company.

Note 20. Auditor's remuneration

Amounts received or due and receivable by the auditor of the company for:		
- audit and review services	4,400	4,800
- share registry services	4,325	4,738
- non audit services	2,430	2,600
	11,155	**12,138**

Note 21. Director and related party disclosures

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

Suzanne Ewart (Appointed 1 July 2017)
David Ross Plunkett
Timothy Gerard McCarthy
Russell David Pattinson
Donna Gay Fabris
Robert William Bryant
Antony James Ede (Appointed 1 July 2017)
Damien Wayne Tyrrell (Appointed 1 July 2017)
Georgia Morgan (Appointed 1 July 2017)
Kenneth John Allender (Resigned 7 September 2018)
Graeme James Walker (Resigned 20 March 2018)
Michael Francis Meehan (Resigned 5 March 2018)

No director or related entity has entered into a material contract with the company. No director's fees have been paid as the positions are held on a voluntary basis.

Directors' Shareholdings	**2018**	**2017**
Suzanne Ewart (Appointed 1 July 2017)	-	-
David Ross Plunkett	-	-
Timothy Gerard McCarthy	12,000	12,000
Russell David Pattinson	3,000	3,000
Donna Gay Fabris	-	-
Robert William Bryant	3,750	3,750
Antony James Ede (Appointed 1 July 2017)	-	-
Damien Wayne Tyrrell (Appointed 1 July 2017)	-	-
Georgia Morgan (Appointed 1 July 2017)	-	-
Kenneth John Allender (Resigned 7 September 2018)	11,100	11,100
Graeme James Walker (Resigned 20 March 2018)	4,660	4,660
Michael Francis Meehan (Resigned 5 March 2018)	-	-

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

Note 22. Dividends provided for or paid

	2018 $	**2017 $**
a. Dividends paid during the year		
Current year dividend		
100% (2017: 100%) franked dividend - 7 cents (2017: 7 cents) per share	**70,749**	**70,749**

The tax rate at which dividends have been franked is 27.5% (2017: 27.5%).

	2018 $	2017 $
Note 22. Dividends provided for or paid (continued)		
b. Franking account balance		
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	637,888	566,021
- franking credits that will arise from payment of income tax as at the end of the financial year	40,271	33,872
- 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:	**678,159**	**599,893**
- 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	**678,159**	**599,893**

Note 23. Key management personnel disclosures

No director of the company receives remuneration for services as a company director or committee member.

There are no executives within the company whose remuneration is required to be disclosed.

	2018 $	2017 $
Note 24. Earnings per share		
(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	333,484	268,826

	Number	Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,010,700	1,010,700

Note 25. Events occurring after the reporting date

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

Note 26. Contingent liabilities and contingent assets

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

Note 27. Segment reporting

The economic entity operates in the service sector where it facilitates **Community Bank®** services in Lancefield and Romsey, Victoria pursuant to a franchise agreement with Bendigo and Adelaide Bank Limited.

Note 28. Registered office/Principal place of business

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

Registered Office	**Principal Place of Business**
20A High Street	20A High Street
Lancefield VIC 3435	Lancefield VIC 3435

Note 29. Financial instruments

Financial Instrument Composition and Maturity Analysis

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

	Floating interest		Fixed interest rate maturing in						Non interest bearing		Weighted average	
			1 year or less		Over 1 to 5 years		Over 5 years					
Financial instrument	**2018 $**	**2017 $**	**2018 $**	**2017 $**	**2018 $**	**2017 $**	**2018 $**	**2017 $**	**2018 $**	**2017 $**	**2018 %**	**2017 %**
Financial assets												
Cash and cash equivalents	310,133	150,725	250,000	100,000	-	-	-	-	400	400	0.83	0.67
Receivables	-	-	-	-	-	-	-	-	136,935	135,812	N/A	N/A
Financial liabilities												
Interest bearing liabilities	-	-	46,104	40,655	92,948	140,127	-	-	-	-	4.89	4.85
Payables	-	-	-	-	-	-	-	-	244,240	12,359	N/A	N/A

Net Fair Values

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

Credit Risk

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

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

Note 29. Financial instruments (continued)

Interest Rate Risk

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

Sensitivity Analysis

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

As at 30 June 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%	4,211	699
Decrease in interest rate by 1%	(4,211)	(699)
Change in equity		
Increase in interest rate by 1%	4,211	699
Decrease in interest rate by 1%	(4,211)	(699)

Directors' declaration

In accordance with a resolution of the directors of Lancefield & Romsey 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.

S.M. Ewart.

Suzanne Ewart,
Chair

Signed on the 28th of August 2018.

Partners in success
Chartered Accountants
61 Bull Street, Bendigo 3550
PO Box 454, Bendigo 3552
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Independent auditor's report to the members of Lancefield & Romsey Community Financial Services Limited

Report on the audit of the financial statements

Our opinion
In our opinion, the financial report of Lancefield & Romsey 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
Lancefield & Romsey 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: 28 August 2018

David Hutchings
Lead Auditor

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