

Annual Report 2018

Lockmore Financial Services Ltd

ABN 41 106 113 599

Elmore **Community Bank**[®] Branch

Lockington **Community Bank**[®] Branch

Rochester **Community Bank**[®] Branch

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Chairman's report

For year ending 30 June 2018

It is with great pleasure that I present to you the Lockmore Financial Services Limited Annual Report for the year ending 30 June 2018.

Our results at a glance

Your **Community Bank**[®] Group has achieved some positive improvements in its headline results for the last year. While ongoing competition amongst banks means we are working hard for customers and business and continuing low interest rates squeeze the margins on our primary revenue sources we have seen some pleasing growth in the company. Our bank keeps growing and as of 30 June 2018 we had \$199.9 million of banking business across our three branches. Our revenue for the year has also increased, with \$1.397 million received which is an increase of 7.5% on last year. We have continued to keep a close eye on our expenses resulting in an increase of less than 1%, before allowing for donations, sponsorship, advertising, and promotions. This area has grown and that is a good thing. We have spent \$159,277, over 60% more than last year, on our community and growing our business.

As an overall result we have posted a reasonable profit of \$50,630 after tax for the year, which is more than twice our 2016/17 profit.

Our work supporting community

In amongst these positive headline results we have maintained our focus on ensuring a return to our communities. We continue to be a strong local employer, we made a dividend payment of 3c per share late in 2017, and we returned around \$150,000 to our communities in sponsorship across the year. This is approximately twice the return to the community compared to 2016/17.

Through two rounds of our Community Sponsorship Program we helped to support the fabric of our communities by contributing to the important work of our community groups, essential service groups, and business development organisations including:

Bamawm Lockington United Cricket Club	Lockington Pony Club
Bamawm Golf Club	Lockington Pre School
Calivil Bowling Club	Mount Pleasant Football Netball Club
Campaspe Run	Nanneella Play Group
Dingee Bush Nursing Centre	Rochester Basketball Association
East Loddon P-12 College	Rotary Club of Rochester
Elmore Harness Racing Club	Rochester Cemetery Trust
Elmore Memorial Hall	Rochester Community House
Elmore Progress Association	Rochester Historical Society
Elmore Bowls Club	Rochester & District Angling Club
Elmore Football Netball Club	Rochester & District Pony Club
Lockington Consolidated School	Rochester Cubs & Scouts
Lockington & District Bush Nursing Centre	Rochester Mural Festival
Lockington Golf Club	Rochester Football Netball Club
Lockington & District Business Centre	Rochester Junior Football Club
Lockington & District Heritage Complex	Runnymede Football Club
Lockington Men's Shed	Toolleen Recreation Reserve

Chairman's report (continued)

We also partnered for success by creating a new partnership with Campaspe Shire and the Rochester community to help bring the newly created Rochester Economic Development Plan to life. Our contribution over three years of sponsorship, alongside funding from the Campaspe Shire, will allow Rochester community leaders to achieve some quick wins and develop bigger plans to create a brighter future for the town after the Murray Goulburn closure.

Our long running partnership with the Elmore Field Days continued and we are proud of what we have been able to achieve together. In 2017 the **Community Bank**[®] Group again teamed with Bendigo Bank to provide cash sponsorship and prizes to the Ag Art Competition, ATM services for event-goers, and out of hours cash handling and counting support, amongst other things. The Campaspe Academy of Sport, a specialised sporting program at Rochester Secondary College, also continued to receive our support. The Academy delivers a program that introduces students to all aspects of elite coaching from skills and nutrition to health and wellbeing. The program continues to grow and provide opportunities for our region's talented youth to achieve their sporting potential.

Perhaps most excitingly, we have been part of enabling big ideas that will benefit our towns by making small contributions that are the catalyst for bigger things. In Elmore, a \$30,000 contribution added to the contributions of other generous local organisations, as well as the City of Greater Bendigo and the Victorian Government, to upgrade the field lighting at the Elmore Recreation Reserve. The upgraded lights will be great for the club and great for the community, allowing for safer night training and night matches at the ground.

We are also proud to be a partner in Bendigo Bank House; a new short-term, affordable and subsidised accommodation facility at Bendigo Hospital for regional patients, their carers and families who need to be away from home while being treated at the hospital. Our sponsorship of two rooms in the facility that are available to residents of our towns will help make a challenging time more bearable.

Our team

We are a strong team at Lockmore Financial Services and our achievements are made possible through the commitment and passion of our team of staff and Directors. These are the people who are the face of our company and provide our customers and our community with such wonderful service.

I would like to recognise the hard work of our branch staff team, led by Tracie Kyne, our Senior Branch Manager. This team has worked together to keep our business growing and ensure that we provide exceptional service to our customers. At 30 June 2018 we employed a team of 14 branch staff passionate about the prosperity of our communities. I would also like to recognise the team who work hard behind the scenes to keep our company running – Sandra Wade, our Administration and Marketing Coordinator, Meagan Keating, our Marketing Consultant and Leo Bruinier, our Business Consultant.

I also extend a sincere thank you to the Directors who have contributed to your **Community Bank**[®] company this year. The Board continues to work together as a team, and with our partner Bendigo Bank, they keep one eye on the sustainability, compliance and performance of the company and the other on meeting the needs of our communities. I take this opportunity to commend Sandra Peacock and Robyn MacLean, who both retired from the Board following the 2017 Annual General Meeting, on their strong guidance for the company and roles in representing the Rochester and Elmore communities respectively. During the year we welcomed Alan Darbyshire, Beck Crawford and Tim Rasmussen – all from Rochester, and Ian Maddison from Lockington – as new Directors of Lockmore Financial Services Ltd. and in a short space of time they have made a big difference.

Our plan for the future

We have seen some positive growth and positive results over the last twelve months, and we have been particularly pleased to be able to grow our contribution to the success of our communities. As our oldest **Community Bank**[®] branch at Elmore gets ready to celebrate 15 years of providing banking services and we tick over \$1.5 million returned directly to our communities, we can see a bright future for our community, customers, and company.

Chairman's report (continued)

We will support the fabric of our communities with a focus on community groups, essential services and business development; we will partner for success by being approachable and open to new opportunities; and we will identify and enable big ideas for our towns. We will also continue to respect our customers; identify and tailor banking solutions to their needs; and we will create and nurture customer advocates for your **Community Bank**[®]. As a company we will focus on being a strong team of exceptional individuals; we will be compliant and sustainable; and we will maximise our profits for the benefits of our shareholders and our communities.

There is much for us to do but I want to assure you that the Board is up to the task. We will continue to work with our partner, the Bendigo Bank, on a clear plan that has the best interests of our collective communities at its core.

Thank you

We can never forget where we came from, who made our company possible and who contributes the most to our success. Thank you to our shareholders who had the confidence to get this company going at Elmore and Lockington and to make it bigger at Rochester some time later. You have been part of creating something special and we trust that the returns to you and to your communities we have been able to provide so far are satisfying to see. Thank you also to our 4,181 customers – you play the most important part of all because it matters where you bank. When you choose to bank with your local **Community Bank**[®] branch, you help to support your community. The more customers who choose to bank with us, and the more products that each customer has with us, the more money we make. The more money we make, the more we can reinvest in the community and we have seen how that works over the last twelve months. It's a great way to do business and we are proud to be part of it.



Bradley Adrian Drust
Chair

Senior Branch Manager's report

For year ending 30 June 2018

I'm proud to present my 9th Annual Manager's report, with some exceptionally good news. Our business continues to grow beyond target expectations, which for the communities of Elmore, Lockington and Rochester, means more profits distributed in the way of Sponsorships and Grants.

As at June 2018, Lockmore Financial Services has 4,181 customers receiving the best banking products and service. From the 4,181 customers we hold 9,533 accounts, and it's to these account holders that we say thank you. You're directly responsible for the 1.5 million dollars that's been returned to our communities. Your banking makes a difference and you should be proud of the changes you've made to the community groups in your towns, just by banking with us.

With another bank closing in Rochester, customers sought their banking needs with Elmore, Lockington & Rochester **Community Bank**[®] branches, and with Bendigo Bank's vision of becoming 'Australia's Bank of Choice' it's easy to see why. We're here to stay while others are leaving. We're here to support the financial needs of our communities, and we're here to celebrate the relationships we have with our community groups.

Due to the support of our customers and shareholders with their banking, our business is noted as:

- Loan business \$79.3 million
- Deposit business \$81.1 million
- Wealth products \$16.9 million
- Other business \$22.6 million (such as Rural Bank, Equipment Finance, Treasury Funds etc)
- Total business \$199.9 million – 9.1% increase on last year.

To have been included in the top 10 most trusted brands in Australia, Bendigo Bank has proven to the Australian public that being bigger is not always better. Our customers like the range of products we provide, but more importantly the individual, customised, exceptional service. As staff, we continue to support our customers on a day to day basis but with their best interests as our priority. We ask our current customers and shareholders to tell our story to their friends, families and community groups, because the more business we have, the more profits we make, then the more stronger our communities become.

Staff updates:

During the 2017/18 year:

- Kylie Pearce left Lockmore Financial Services for full time employment elsewhere
- Greg Little, Customer Relationship Manager, retired from banking
- Lauren McKee from Elmore joined us as a Casual Customer Service Officer
- Lucy Knight left to have her third child.
- Tish Serpell began working as a Customer Service Officer in Rochester
- Jaime Dingwall joined the Elmore team as a Customer Service Officer.

Senior Branch Manager's report (continued)

Many thanks and a big congratulations to our current dedicated staff who continue to support the financial needs of our customers – Helen B, David, Kelly, Helen Mc, Kerri, Tanya, Wendy, Fiona, Rachel, Lauren, Tish & Jaime. They do an amazing job supporting all three branches with transactional, lending, agribusiness, insurance, protection and wealth creation. I also thank Sandra, Meagan and Leo in our Administration, Marketing and Bookkeeping departments for their ongoing support, our volunteer Board of Directors for their passion and drive to make a difference in our communities and to our shareholders who continue to support the needs of financial services in our towns.

But my biggest thanks goes to our customers. Without them, none of this is possible. They're our true heroes. It's thanks to them we have the profits to give away and it's their level of business that has 14 locals employed. I applaud your support and hope that our business continues to grow. \$1.5 million back to our communities. Imagine the possibilities if we had even more customers!

I look forward to the year ahead.

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

Tracie Kyne
Senior 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:

Bradley Adrian Drust

Company Chair

Occupation: Chief Executive Officer

Qualifications, experience and expertise: Over 15 years' experience in natural resource management in technical and management roles. Currently Chief Executive Officer at the North Central Catchment Authority, leading the organisation to deliver a range of community, environment and compliance programs. Bachelors of Arts (Geography) / Bachelors of Science (Environmental Science) and Masters of Business Administration. Also Chairperson of the Elmore Swimming Pool Committee of Management.

Committees: Chair, Human Resources Committee, Facilities

Interest in shares: Nil

Graeme Trevor Wood

Company Secretary

Occupation: Farmer

Qualifications, experience and expertise: Formerly involved in many community groups including president of the school council, office bearer APEX Club and currently Treasurer of Lockington Community Care Committee Inc. Director since 2003.

Committees: Facilities, Share Registry Officer

Interest in shares: 626

Corinne Gaye Holmberg

Assistant Treasurer

Occupation: Retired

Qualifications, experience and expertise: Retired Administrator & business partner, background in office management positions in which financial book keeping was a responsibility. Has been actively involved in community organisations often holding executive positions. Director since 2003, Treasurer from 2006 to 2014.

Committees: Marketing

Interest in shares: 3,751

Patrick Augustine Rochford

Vice Chair

Occupation: Accountant, Farmer

Qualifications, experience and expertise: Bachelor of Business (Accounting), small business experience in the farming sector with both dairy and beef. Worked in large water organisation in both accounting & governance. Experience in Community Consultation, Chair of the Farm & Environment Working Group, Goulburn Broken Catchment Management Authority, member of Shepparton Irrigation Region People & Planning Integration Committee (SIRPPIC).

Committees: Risk & Audit

Interest in shares: Nil

Directors' report (continued)

Directors (continued)

Alan Keith Darbyshire

Treasurer (Appointed 14 August 2017)

Occupation: Accountant

Qualifications, experience and expertise: CPA (Fellow)/Tax Agent/Registered Company Auditor. Extensive involvement in community groups. Accounting, Governance, Auditing and management skills. Alan was appointed as Treasurer on the 12th February 2018.

Committees: Risk & Audit

Interest in shares: 10,000

Rebecca Christine Crawford

Director (Appointed 11 September 2017)

Occupation: Administration

Qualifications, experience and expertise: Attended local school, pharmacy traineeship in Rochester, hairdressing apprenticeship in Lockington, then administration at Murray Goulburn. Currently bringing up two children.

Involvement in many sporting and community groups in varying roles. Believes that our district offers something for all ages and looks forward to future involvement.

Committees: Marketing, Human Resources

Interest in shares: Nil

Timothy James Rasmussen

Director (Appointed 11 September 2017)

Occupation: Financial Advisor

Qualifications, experience and expertise: Bachelor of Commerce, Diploma in Financial Planning, worked in the printing industry for 15 years. Financial Adviser (3 years). Involved in local sport (cricket and football)

Committees: Facilities

Interest in shares: Nil

Ian Anthony Maddison

Director (Appointed 10 July 2018)

Occupation: Livestock Agent

Qualifications, experience and expertise: Principal of Maddison Livestock & Property Pty Ltd (2002 - 2018), managing 10 full time and part time employees. Business Manager of Gippsland & Northern/Dalgety's'/Wesfarmers Echuca (1992 - 2002). Dairy Farmer from 1980 to 1990. Committee member of Lockington Bamawm United Football Netball Club Inc. including 3 years as President. Two terms as Campaspe Shire Councillor, including 2 years as Mayor. 18 month Board member for Echuca Community For the Aged. Married to Kathi for 44 years with 5 children and 11 grandchildren.

Special responsibilities: None to date

Interest in shares: Nil

Robyn Jean Maclean

Company Treasurer (Resigned 3 December 2017)

Occupation: Principal - Primary School

Qualifications, experience and expertise: Involved in a range of local community organisations. Worked in Education for 26 years. Master of School Leadership (University of Melbourne). Currently Principal of Colbinabbin Primary School. Director since 2015.

Committees: Risk & Audit

Interest in shares: 700

Directors' report (continued)

Directors (continued)

Sandra Margaret Peacock

Director (Retired 26 October 2017)

Occupation: Business Owner

Qualifications, experience and expertise: Business owner. Past Nanneella School Council President. Past Community House committee member - Rochester.

Committees: Human Resources, Marketing

Interest in shares: 10,000

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 Board appointed Graeme Trevor Wood to the position of Company Secretary in July 2015.

Graeme has been involved in many community groups including president of the school council, office bearer APEX Club and currently Treasurer of Lockington Community Care Committee Inc. Director since 2003.

Principal Activities

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

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

Operating results

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

Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
50,630	23,610

Dividends

	Year ended 30 June 2018	
	Cents	\$
Dividends paid in the year	3	47,677

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.

Directors' report (continued)

Environmental regulation

The company is not subject to any significant environmental regulation.

Directors' benefits

No director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a director, a firm which a director is a member or an entity in which a director has a substantial financial interest except as disclosed in note 21 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.

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

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

- all non-audit services have been reviewed by the 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 12.

Signed in accordance with a resolution of the board of directors at Elmore, Victoria on 10 September 2018.



Bradley Adrian Drust
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 Lockmore Financial Services Limited

As lead auditor for the audit of Lockmore 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.

A handwritten signature in black ink, appearing to read 'Andrew Frewin Stewart', written in a cursive style.

Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550
Dated: 21 September 2018

A handwritten signature in black ink, appearing to read 'David Hutchings', written in a cursive style.

David Hutchings
Lead Auditor

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	1,397,962	1,298,111
Employee benefits expense		(819,125)	(800,037)
Charitable donations, sponsorship, advertising and promotion		(159,277)	(98,312)
Occupancy and associated costs		(71,436)	(65,285)
Systems costs		(58,963)	(63,720)
Depreciation and amortisation expense	5	(54,344)	(53,611)
General administration expenses		(164,935)	(176,995)
Profit before income tax expense		69,882	40,151
Income tax expense	6	(19,252)	(16,541)
Profit after income tax expense		50,630	23,610
Total comprehensive income for the year attributable to the ordinary shareholders of the company:		50,630	23,610
Earnings per share		¢	¢
Basic earnings per share	22	3.19	1.49

The accompanying notes form part of these financial statements.

Financial statements (continued)

Balance Sheet as at 30 June 2018

	Notes	2018 \$	2017 \$
ASSETS			
Current assets			
Cash and cash equivalents	7	567,553	610,781
Trade and other receivables	8	128,051	121,586
Total current assets		695,604	732,367
Non-current assets			
Property, plant and equipment	9	201,046	197,106
Intangible assets	10	103,118	129,979
Deferred tax asset	11	14,827	14,302
Total non-current assets		318,991	341,387
Total assets		1,014,595	1,073,754
LIABILITIES			
Current liabilities			
Trade and other payables	12	72,628	141,814
Current tax liabilities	11	9,557	11,688
Provisions	13	92,742	88,362
Total current liabilities		174,927	241,864
Non-current liabilities			
Provisions	13	12,953	8,128
Total non-current liabilities		12,953	8,128
Total liabilities		187,880	249,992
Net assets		826,715	823,762
EQUITY			
Issued capital	14	1,344,664	1,344,664
Accumulated losses	15	(517,949)	(520,902)
Total equity		826,715	823,762

The accompanying notes form part of these financial statements.

Financial statements (continued)

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

	Note	Issued capital \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2016		1,344,664	(504,780)	839,884
Total comprehensive income for the year		-	23,610	23,610
Transactions with owners in their capacity as owners:				
Shares issued during period		-	-	-
Costs of issuing shares		-	-	-
Dividends provided for or paid	20	-	(39,732)	(39,732)
Balance at 30 June 2017		1,344,664	(520,902)	823,762
Balance at 1 July 2017		1,344,664	(520,902)	823,762
Total comprehensive income for the year		-	50,630	50,630
Transactions with owners in their capacity as owners:				
Shares issued during period		-	-	-
Costs of issuing shares		-	-	-
Dividends provided for or paid	20	-	(47,677)	(47,677)
Balance at 30 June 2018		1,344,664	(517,949)	826,715

The accompanying notes form part of these financial statements.

Financial statements (continued)

Statement of Cash Flows for the year ended 30 June 2018

	Notes	2018 \$	2017 \$
Cash flows from operating activities			
Receipts from customers		1,506,209	1,411,097
Payments to suppliers and employees		(1,400,314)	(1,298,140)
Interest received		11,580	12,909
Income taxes paid		(21,908)	-
Net cash provided by operating activities	16	95,567	125,866
Cash flows from investing activities			
Payments for property, plant and equipment		(23,965)	(1,755)
Payments for intangible assets		(67,153)	(67,152)
Net cash used in investing activities		(91,118)	(68,907)
Cash flows from financing activities			
Repayment of borrowings		-	(878)
Dividends paid	20	(47,677)	(39,732)
Net cash used in financing activities		(47,677)	(40,610)
Net increase/(decrease) in cash held		(43,228)	16,349
Cash and cash equivalents at the beginning of the financial year		610,781	594,432
Cash and cash equivalents at the end of the financial year	7(a)	567,553	610,781

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.

Notes to the financial statements (continued)

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 leases of its branches. As at 30 June 2018, the company's future minimum lease payment under non-cancellable operating leases amount to \$22,102, on an undiscounted basis (see Note 17).

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

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

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 Elmore, Lockington and Rochester, 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.

Notes to the financial statements (continued)

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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

b) Revenue (continued)

Discretionary financial contributions (continued)

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).

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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

c) Income tax (continued)

Deferred tax (continued)

Deferred tax assets and liabilities are 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 excess.

d) Employee entitlements

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

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

e) Cash and cash equivalents

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

f) Trade receivables and payables

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

g) Property, plant and equipment

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

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

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

g) Property, plant and equipment (continued)

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

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

h) Intangibles

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

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

i) Payment terms

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

j) Borrowings

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

k) Financial instruments

Recognition and initial measurement

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

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

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

Classification and subsequent measurement

(i) Loans and receivables

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

(ii) Held-to-maturity investments

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

(iii) Financial liabilities

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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

k) Financial instruments (continued)

Impairment

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

l) Leases

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

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

m) Provisions

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

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

n) 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.

Notes to the financial statements (continued)

Note 2. Financial risk management

The company's activities expose it to a limited variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the entity. The entity does not use derivative instruments.

Risk management is carried out directly by the board of directors.

(i) Market risk

The company has no exposure to any transactions denominated in a currency other than Australian dollars.

(ii) Price risk

The company is not exposed to equity securities price risk as it does not hold investments for sale or at fair value. The company is not exposed to commodity price risk.

(iii) Credit risk

The company has no significant concentrations of credit risk. It has policies in place to ensure that customers have an appropriate credit history. The company's franchise agreement limits the company's credit exposure to one financial institution, being Bendigo and Adelaide Bank Limited.

(iv) Liquidity risk

Prudent liquidity management implies maintaining sufficient cash and marketable securities and the availability of funding from credit facilities. The company believes that its sound relationship with Bendigo and Adelaide Bank Limited mitigates this risk significantly.

(v) Cash flow and fair value interest rate risk

Interest-bearing assets are held with Bendigo and Adelaide Bank Limited and subject to movements in market interest. Interest-rate risk could also arise from long-term borrowings. Borrowings issued at variable rates expose the company to cash flow interest-rate risk. The company believes that its sound relationship with Bendigo and Adelaide Bank Limited mitigates this risk significantly.

(vi) Capital management

The board's policy is to maintain a strong capital base so as to sustain future development of the company. The board of directors monitor the return on capital and the level of dividends to shareholders. Capital is represented by total equity as recorded in the Balance Sheet.

In accordance with the franchise agreement, in any 12 month period, the funds distributed to shareholders shall not exceed the distribution limit.

The distribution limit is the greater of:

- (a) 20% of the profit or funds of the franchisee otherwise available for distribution to shareholders in that 12 month period; and
- (b) subject to the availability of distributable profits, the relevant rate of return multiplied by the average level of share capital of the franchisee over that 12 month period where the relevant rate of return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period plus 5%.

The board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the year ended 30 June 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.

Notes to the financial statements (continued)

Note 3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Taxation

Judgement is required in assessing whether deferred tax assets and certain tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from 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.

Notes to the financial statements (continued)

Note 3. Critical accounting estimates and judgements (continued)

Impairment of assets (continued)

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

	2018 \$	2017 \$
Note 4. Revenue from ordinary activities		
Operating activities:		
- gross margin	1,036,285	891,482
- services commissions	177,617	216,422
- fee income	105,003	109,261
- market development fund	60,417	62,500
- other revenue	-	2,874
Total revenue from operating activities	1,379,322	1,282,539
Non-operating activities:		
- interest received	11,182	12,521
- profit on sale of motor vehicle	7,458	-
- other revenue	-	3,051
Total revenue from non-operating activities	18,640	15,572
Total revenues from ordinary activities	1,397,962	1,298,111

Note 5. Expenses

Depreciation of non-current assets:

- plant and equipment	5,325	7,162
- leasehold improvements	13,500	14,577
- motor vehicle	8,658	8,916

Amortisation of non-current assets:

- franchise agreement	4,477	3,659
- franchise renewal fee	22,384	15,797
- establishment fee	-	3,500
	54,344	53,611

Bad debts	157	407
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Notes to the financial statements (continued)

	2018 \$	2017 \$
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Note 6. Income tax expense

The components of tax expense comprise:

- Current tax	19,777	7,288
- Movement in deferred tax	(525)	(3,116)
- Recoupment of prior year tax losses	-	7,970
- Under/(Over) provision of tax in the prior period	-	4,399
	19,252	16,541

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

Operating profit	69,882	40,151
Prima facie tax on loss from ordinary activities at 27.5% (2017: 27.5%)	19,217	10,578
Add tax effect of:		
- non-deductible expenses	35	1,100
- timing difference expenses	2,576	3,580
- other deductible expenses	(2,051)	-
	19,777	15,258
Movement in deferred tax	(525)	(3,116)
Under/(Over) provision of income tax in the prior year	-	4,399
	19,252	16,541

Note 7. Cash and cash equivalents

Cash at bank and on hand	267,553	310,781
Term deposits	300,000	300,000
	567,553	610,781

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	267,553	310,781
Term deposits	300,000	300,000
	567,553	610,781

Note 8. Trade and other receivables

Trade receivables	109,860	99,880
Prepayments	15,570	18,687
Other receivables and accruals	2,621	3,019
	128,051	121,586

Notes to the financial statements (continued)

	2018 \$	2017 \$
Note 9. Property, plant and equipment		
Leasehold improvements		
At cost	309,912	309,912
Less accumulated depreciation	(166,174)	(152,674)
	143,738	157,238
Plant and equipment		
At cost	137,969	137,969
Less accumulated depreciation	(117,912)	(112,587)
	20,057	25,382
Motor vehicles		
At cost	42,147	44,581
Less accumulated depreciation	(4,896)	(30,095)
	37,251	14,486
Total written down amount	201,046	197,106
Movements in carrying amounts:		
Leasehold improvements		
Carrying amount at beginning	157,238	171,815
Less: depreciation expense	(13,500)	(14,577)
Carrying amount at end	143,738	157,238
Plant and equipment		
Carrying amount at beginning	25,382	30,790
Additions	-	1,754
Less: depreciation expense	(5,325)	(7,162)
Carrying amount at end	20,057	25,382
Motor vehicles		
Carrying amount at beginning	14,486	23,402
Additions	42,147	-
Disposals	(10,724)	-
Less: depreciation expense	(8,658)	(8,916)
Carrying amount at end	37,251	14,486
Total written down amount	201,046	197,106

Notes to the financial statements (continued)

	2018 \$	2017 \$
Note 10. Intangible assets		
Establishment fee		
At cost	70,000	70,000
Less: accumulated amortisation	(70,000)	(70,000)
	-	-
Franchise fee		
At cost	108,984	108,984
Less: accumulated amortisation	(94,061)	(89,584)
	14,923	19,400
Renewal processing fee		
At cost	194,922	194,922
Less: accumulated amortisation	(120,307)	(97,923)
	74,615	96,999
Agency Costs - payout		
At cost	13,580	13,580
Total written down amount	103,118	129,979

Note 11. Tax

Current:

Income tax payable	9,557	11,688
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Non-Current:

Deferred tax assets

- accruals	1,018	715
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- employee provisions	29,065	26,535
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	30,083	27,250
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Deferred tax liability

- accruals	721	830
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- property, plant and equipment	14,535	12,118
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	15,256	12,948
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Net deferred tax asset	14,827	14,302
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Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income

	(525)	4,853
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Notes to the financial statements (continued)

	2018 \$	2017 \$
Note 12. Trade and other payables		
Current:		
Trade creditors	57,724	43,660
Other creditors and accruals	14,904	98,154
	72,628	141,814

Note 13. Provisions

Current:		
Provision for annual leave	47,701	42,770
Provision for long service leave	45,041	45,592
	92,742	88,362
Non-Current:		
Provision for long service leave	12,953	8,128

Note 14. Issued capital

1,589,227 ordinary shares fully paid (2017: 1,589,227)	1,409,233	1,409,233
Less: equity raising expenses (Elmore/Lockington)	(29,553)	(29,553)
Less: equity raising expenses (Rochester)	(35,016)	(35,016)
	1,344,664	1,344,664

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).

Notes to the financial statements (continued)

Note 14. Issued capital (continued)

Rights attached to shares (continued)

(c) Transfer

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

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

Prohibited shareholding interest

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

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

- They control or own 10% or more of the shares in the company (the "10% limit").
- In the opinion of the board they do not have a close connection to the community or communities in which the company predominantly carries on business (the "close connection test").
- Where the person is a shareholder, after the transfer of shares in the company to that person the number of shareholders in the company is (or would be) lower than the base number (the "base number test"). The base number is 694. As at the date of this report, the company had 769 shareholders.

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

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

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

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

	2018	2017
	\$	\$
Note 15. Accumulated losses		
Balance at the beginning of the financial year	(520,902)	(504,780)
Net profit from ordinary activities after income tax	50,630	23,610
Dividends paid or provided for	(47,677)	(39,732)
Balance at the end of the financial year	(517,949)	(520,902)

Notes to the financial statements (continued)

	2018 \$	2017 \$
Note 16. Statement of cash flows		
Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities		
Profit from ordinary activities after income tax	50,630	23,610
Non cash items:		
- depreciation	27,483	30,655
- amortisation	26,861	22,956
- gain on disposal of asset	(7,458)	-
Changes in assets and liabilities:		
- (increase)/decrease in receivables	(6,464)	(1,163)
- (increase)/decrease in other assets	(525)	4,853
- increase/(decrease) in payables	(2,034)	18,613
- increase/(decrease) in provisions	9,205	14,654
- increase/(decrease) in current tax liabilities	(2,131)	11,688
Net cash flows provided by operating activities	95,567	125,866

Note 17. Leases

Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

Payable - minimum lease payments:

- not later than 12 months	22,102	39,970
- between 12 months and 5 years	-	21,940
	22,102	61,910

The Elmore Branch lease is a non-cancellable lease with a five-year term commencing 1 December 2013, with rent payable monthly in advance. It is in the last option period. The rent is reviewed annually with increases in line with CPI.

The Lockington Branch lease is a non-cancellable lease with a five-year term commencing 3 March 2014, with rent payable monthly in advance. The rent is reviewed annually with increases in line with CPI.

The Rochester Branch lease is a non-cancellable lease with a three-year term, with rent payable monthly in advance. The lease has two further five year term options left on the lease. The rent is reviewed annually with increases in line with CPI and on market value at each renewal date next being 3 December 2018.

Notes to the financial statements (continued)

	2018 \$	2017 \$
Note 18. Auditor's remuneration		
Amounts received or due and receivable by the auditor of the company for:		
- audit and review services	5,800	4,200
- share registry services	7,372	7,242
- non audit services	3,120	3,170
	16,292	14,612

Note 19. Director and related party disclosures

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

Bradley Adrian Drust
Graeme Trevor Wood
Corinne Gaye Holmberg
Patrick Augustine Rochford
Alan Keith Darbyshire (Appointed 14 August 2017)
Rebecca Christine Crawford (Appointed 11 September 2017)
Timothy James Rasmussen (Appointed 11 September 2017)
Ian Anthony Maddison (Appointed 10 July 2018)
Robyn Jean Maclean (Resigned 3 December 2017)
Sandra Margaret Peacock (Retired 26 October 2017)

No director or related entity has entered into a material contract with the company.

	2018	2017
Directors' Shareholdings		
Bradley Adrian Drust	-	-
Graeme Trevor Wood	626	626
Corinne Gaye Holmberg	3,751	3,751
Patrick Augustine Rochford	-	-
Alan Keith Darbyshire (Appointed 14 August 2017)	10,000	10,000
Rebecca Christine Crawford (Appointed 11 September 2017)	-	-
Timothy James Rasmussen (Appointed 11 September 2017)	-	-
Ian Anthony Maddison (Appointed 10 July 2018)	-	-
Robyn Jean Maclean (Resigned 3 December 2017)	700	700
Sandra Margaret Peacock (Retired 26 October 2017)	10,000	10,000

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

Notes to the financial statements (continued)

	2018 \$	2017 \$
Note 20. Dividends provided for or paid		
a. Dividends paid during the year		
Current year dividend		
Unfranked dividend - 3 cents (2017: 2.5 cents) per share	47,677	39,732
b. Franking account balance		
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	28,376	6,468
- franking credits that will arise from payment of income tax as at the end of the financial year	9,557	11,688
Franking credits available for future financial reporting periods:	37,933	18,156
Net franking credits available	37,933	18,156

Note 21. Key management personnel disclosures

The directors received remuneration including superannuation, as follows:

Bradley Adrian Drust	1,200	1,200
Graeme Trevor Wood	600	600
Corinne Gaye Holmberg	600	600
Patrick Augustine Rochford	600	600
Rebecca Crawford - (Appointed 14 August 2017)	600	-
Alan Keith Darbyshire - (Appointed 14 August 2017)	600	-
Tim Rasmussen - (Appointed 21 August 2017)	600	-
Robyn Jean Maclean - (Resigned 3 December 2017)	-	600
Sandra Margaret Peacock - (Resigned 26 October 2017)	-	600
	4,800	4,200

Note 22. Earnings per share

(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	50,630	23,610
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	Number	Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,589,227	1,589,227

Notes to the financial statements (continued)

Note 23. Events occurring after the reporting date

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

Note 24. Contingent liabilities and contingent assets

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

Note 25. Segment reporting

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

Note 26. Registered office/Principal place of business

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

Registered Office

62 Railway Place
Elmore Vic 3558

Principal Place of Business

62 Railway Place
Elmore Vic 3558

9-11 Lockington Road
Lockington Vic 3563

24 Gillies Street
Rochester Vic 3561

Note 27. Financial instruments

Financial Instrument Composition and Maturity Analysis

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

Financial instrument	Floating interest		Fixed interest rate maturing in						Non interest bearing		Weighted average	
	2018 \$	2017 \$	1 year or less		Over 1 to 5 years		Over 5 years		2018 \$	2017 \$	2018 %	2017 %
			2018 \$	2017 \$	2018 \$	2017 \$	2018 \$	2017 \$				
Financial assets												
Cash and cash equivalents	267,553	310,781	300,000	300,000	-	-	-	-	-	-	1.85	2.07
Receivables	-	-	-	-	-	-	-	-	109,860	99,880	N/A	N/A
Financial liabilities												
Interest bearing liabilities	-	-	-	-	-	-	-	-	-	-	Nil	Nil
Payables	-	-	-	-	-	-	-	-	57,724	43,660	N/A	N/A

Notes to the financial statements (continued)

Note 27. Financial instruments (continued)

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%	5,676	6,108
Decrease in interest rate by 1%	(5,676)	(6,108)
Change in equity		
Increase in interest rate by 1%	5,676	6,108
Decrease in interest rate by 1%	(5,676)	(6,108)

Directors' declaration

In accordance with a resolution of the directors of Lockmore 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.



Bradley Adrian Drust
Chair

Signed on the 10th of September 2018.

Independent audit report



Chartered Accountants

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

Independent auditor's report to the members of Lockmore Financial Services Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial report of Lockmore 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

Lockmore 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.

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Independent audit report (continued)

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

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

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

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

Directors' responsibility for the financial report

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

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

Auditor's responsibility for the audit of the financial report

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

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



Andrew Frewin Stewart
61 Bull Street, Bendigo, 3550
Dated: 21 September 2018



David Hutchings
Lead Auditor

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ABN: 41 106 113 599

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