Annual Report 2017

Mandurah Community Financial Services Limited

ABN 56 098 081 308

Halls Head **Community Bank**® Branch

Contents

Chairman's report

For year ending 30 June 2017

Dear Shareholder,

In April this year our company, celebrated its 15th birthday, providing banking to the Mandurah community, contributing to the local community and providing dividend returns to you the shareholders. The current Board recently had a get together at which all the current and past Directors were invited in part to celebrate the milestone, but to also have the current Board meet those original Directors whose vision and drive saw the establishment of our company and the opening of our branch in Halls Head. At that time our branch was the only bank branch operating on the western side of the estuary. To Allan Raynor, the original Chair and his original fellow Board members Terry Cain, Neil Gillan, Karen Hadida, Ed Howson, John Hughes (Dec) Bill King, Louisa Manuel, Des Mclean and Cheryl Raynor, many thanks for having the passion and drive to get the branch opened. To all the many Directors who have served on the Board over the journey, a huge thanks for the time and commitment each and everyone of you have made during your time on the Board. To our original Manager, David Williams and all the former staff who have worked in the branch and to our current staff lead by Stephen Boyham and Kelly Litton, a huge thanks. It is your work that brings in the business and allows our company to make the contributions it has made and continues to make, for our Mandurah community.

I would also like to thank the rest of the Board, Deputy Chair Kerrie Robinson, Alisha Joynes, Andrew Brown, Adrian Pitsikas, Doug Savarese and Terry Power for their hard work, support and commitment over the past year.

I would particularly like to acknowledge the hard work and tireless efforts of our Marketing and Administration Coordinator and Company Secretary Sharon Hooper. Sharon has been tasked with maintaining our relationships with our existing partnerships and developing new partnership opportunities.

In this year's audited result before tax we recorded an operating loss of $43,231, which compares to an operating profit of $41,288 for 2016. It should be noted that these results are after making significant contributions with respect to Donations and Sponsorships of $111,136 this year and $110,000 last year. In addition, a change to the way the Market Development Funding income stream received from Bendigo and Adelaide Bank was calculated the income meant a loss of $40,000 in income this year compared to last year. Also, the Board made the decision to purchase shares in Bendigo and Adelaide Bank itself, in the main because the return via dividend payments is currently better than interest earning rates. However, the movement in the share price resulted in an unrealised loss of $5,109 which was reflected in the reported operating loss, however, since the end of the financial year the share price has increased on average by some 6% in the first three months of this current financial year.

The overall financial position of the company remains strong, with cash reserves of over $1.1 million as at 30 June, and shareholder equity, your equity, at $1.259 million, equivalent to $2.11 per share.

As shareholders, you have also received a fully franked dividend of 7 cents per share last November. To the date of this report, that now means the company has now paid a total $567,988 in cash dividends together with associated imputation credits of $237,444. This represents cash dividend payments of 96 cents and imputation credits of 40 cents per issued share, and effective return of $1.36 per share. Speaking of the dividend notices sent out originally in November 2016 and the amended notice sent back in May this year, as indicated this was a result of the Federal Government change in the tax rates for companies of our size, which also inducted a back dating of the entitlement to franking credits.

Furthermore, the Board has recently approved the payment of a further dividend of 6.5 cents per share to be paid in this coming November, fully franked to company tax rate of 27.5%.

Mandurah Community Financial Services Limited is a Franchise Bank within the Bendigo and Adelaide Bank network. Our point of difference is that of a **Community Bank**® company putting back into local communities. This year we have continued to make contributions to various community groups and organisations, including;

- Make Place, which provides assistance with a collaborative work space and youth on leadership programs;
- John Tonkin College, Falcon Primary School, Halls Head Primary School, Hall Head College, Ocean Road Primary School and South Halls Head Primary School in relation to student awards and activities;

Chairman’s report (continued)

- Mandurah Performing Arts Centre - in relation to Manjar Art Awards;
- Timbers Edge Men’s Shed – to assist in the purchase of equipment;
- Mandurah City Council – in relation to the Children’s Festival;
- Halls Head Bowling Club;
- Peel Thunder Football Club;
- Peel Hockey and as well numerous others.

Over the journey, we have contributed directly, up to 30 June 2017, some $1.08 million to our community, and indirectly when the Bendigo Bank **Community Bank**® National Conference was held here in Mandurah in 2009. This was the first national conference held outside Victoria, the economic benefit to the local businesses and the local community was estimated to be in excess of $750,000.

So, as the **Community Bank**® model heads nationally towards its 20th year in 2018, please remember, the one thing that has not changed is our ongoing commitment to friendly, personalised banking services. So, if you, your family, friends or work colleagues need any banking related services call, or call into the Hall Heads **Community Bank**® Branch. Together we can continue to do big things for Mandurah.

Ian Ilsley
Chairman

Manager's report

For year ending 30 June 2017

The 2016/17 financial year has been a challenging year for the branch in regards to our growth. As time progresses, we are having to adapt and change to ensure that we are staying relevant in an ever changing industry.

This year has seen a minor shuffle in regards to roles, with the Managing role becoming less branch involved and more mobile and business development related. This has been well received to date, allowing us to gain exposure to many more potential clients in the comfort of their own homes.

Being more progressive in our approaches to customers and sponsorships has had a direct impact on business generated from funds spent, giving us a direct correlation between the two. In my opinion, with the actions that we are undertaking on a daily basis will ensure growth for the new financial year.

With our 2016/17 financial year strategy, Director's support, team engagement and our **Community Bank**® story, we have the capacity as a business to achieve a high level of growth in a challenging environment over the next 12 months.

We are very lucky to have such a hardworking, cohesive and specialised team at Halls Head **Community Bank**® Branch, delivering outcomes and striving for success on a daily basis. The passion and drive that the team have here is second to none, and I look forward to achieving great things as a collective in the coming year.

As shareholders, your business is extremely valuable to us, and I would again like to take the opportunity to thank you. I strongly encourage you to come into the branch to meet our fantastic team not only to discuss your commitment and financial needs, but for you to see for yourself the passion and culture we are creating, and the positive influence we are having on our community.

Kind Regards,

Stephen Boyham
Branch Manager

Bendigo and Adelaide Bank report

For year ending 30 June 2017

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

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

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

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

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

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

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

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

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

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

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

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

Robert Musgrove
Executive Engagement Innovation

Directors' report

For the financial year ended 30 June 2017

Your directors submit the financial statements of the company for the financial year ended 30 June 2017.

Directors

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

Ian James Anson Ilsley

Chairman

Occupation: Certified Practising Accountant

Qualifications, experience and expertise: Director of Ward and Ilsley Partners Pty Ltd, Certified Practising Accountants, formerly the Treasurer of Frederick Irwin Anglican School Parents & Friends Association for 13 years, Treasurer of Mandurah Country Club since 2001, Board member of the Mandurah Performing Arts Centre from 2008 to 2014, one of two community representatives' on the City of Mandurah's Audit & Risk Committee and a former board member on the Board of John Tonkin College, Mandurah.

Special responsibilities: Chair/Treasurer

Interest in shares: 3,500

Kerrie Patricia Robinson

Deputy Chair

Occupation: Village Manager - Lifestyle Village

Qualifications, experience and expertise: Currently employed as Village Manager at Settlers Lakeside Village in Ravenswood WA, responsible for the physical and financial management of the property. Kerrie has also held positions in local government including youth and seniors portfolios and enjoys working in the community sector/ Other previous experiences include working in retail/commercial property management roles. Kerrie holds diplomas in both community development and business management and is currently studying a diploma in village management.

Special responsibilities: Deputy Chair, Chair of the HR Committee

Interest in shares: 1,000

Andrew James Brown

Director

Occupation: Railway Employee

Qualifications, experience and expertise: Formerly the owner of the Halls Head Bakers Delight Franchise (10 years) and has Certificate 3 in Small Business Franchising. Previously the business owner of A & J Fabricators which involved 20 years contracting to mining, oil and gas industries, past director of small business Centre Peel and previously board member of HHCC & Career Enterprise Centre in Mandurah.

Special responsibilities: Chair of Finance Committee

Interest in shares: 500

Douglas Philip James Savarese

Director

Occupation: Directors - Quadbogey Pty Ltd

Qualifications, experience and expertise: Douglas' experience includes being a Area Manager for Counterpoint Marketing , Assistant Manager at Coles Myer and Newmart Supermarket and Sales/Territory Manager for Kellogg's Australia. Douglas currently owns a private company, Quadbogey P/L, which has contracts with Australia Post for parcel delivery service. Douglas is also a past Captain of the Mandurah Country Club.

Special responsibilities: Marketing Committee

Interest in shares: 500

Directors (continued)

Terence Edmund Power

Director

Occupation: Management Consultant

Qualifications, experience and expertise: Terry is a management consultant, business author and international keynote speaker, with a diverse range of clients; from multi-nationals like Hilton Hotel Group, PMI International and Commonwealth Bank to SME's, Government and the not-for-profit sector. He currently lectures at Curtin University's Centre for Entrepreneurship and Murdoch University's Executive Education, at the Masters level. Terry is an experienced board member having served on State and National boards, including Volunteer Australia. Terry holds a BA (Hons) and Graduate Diploma in Education from Murdoch University.

Special responsibilities: Chair Marketing Committee

Interest in shares: Nil

Alisha Anne Joynes

Director

Occupation: Youth Development Officer - City of Mandurah

Qualifications, experience and expertise: Alisha's knowledge of the Mandurah area stems back 30 years when her family moved from Perth and she began schooling at Mandurah Primary. Alisha has worked locally for the City of Mandurah for over 15 years in the areas of sport, recreation and community development as Youth Development Officer. Alisha has been heavily involved in a number of local sporting associations and clubs in a variety of roles over the past 20 years, including Peel Hockey and Mandurah Triathlon Club. Alisha is currently undertaking a degree in Sport, Recreation and Event Management and has recently become a new mum.

Special responsibilities: Marketing and HR committees

Interest in shares: 1,000

Adrian Paul Pitsikas

Director

Occupation: Director of Turf Production company

Qualifications, experience and expertise: Adrian, together with his brother own and operate Greenacres Turf Group the largest turf producer in Western Australia and have done so for the past 27 years. Adrian is the former chair of the Turf Australia (the industry peak body for the whole of Australia). Adrian holds Diplomas in Horticulture (Turf), Irrigation and Business Management.

Special responsibilities: Finance and HR committees

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 Sharon Hooper. Sharon was appointed to the position of secretary on 15 January 2016.

Sharon has been working in Banking and finance for the past 23 years. 13 years with ANZ Banking Group Ltd in various retail and customer service roles. Three years with Australian Defence Credit Union as Insurance specialist for Western Australia. Three years as Finance Officer, Peel Health Campus and currently employed by Mandurah Community Financial Services Limited, Franchisee of the Halls Head **Community Bank**® Branch of Bendigo and Adelaide Bank as Marketing and Administration Coordinator and Company Secretary.

Principal Activities

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

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

Operating results

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

Year ended 30 June 2017 $	Year ended 30 June 2016 $
(31,541)	29,393

Dividends

	Year ended 30 June 2017	
	Cents	$
Dividends paid in the year	7	41,614

Significant changes in the state of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the company that occurred during the financial year under review not otherwise disclosed in this report or the financial statements.

Events since the end of the financial year

There are no matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the company the results of those operations or the state of affairs of the company, in future years.

Likely developments

The company will continue its policy of facilitating banking services to the community.

Environmental regulation

The company is not subject to any significant environmental regulation.

Directors' benefits

No director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a director, a firm which a director is a member or an entity in which a director has a substantial financial interest except as disclosed in note 20 to the financial statements. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the company's accounts, or the fixed salary of a full-time employee of the company, controlled entity or related body corporate.

Indemnification and insurance of directors and officers

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

Indemnification and insurance of directors and officers (continued)

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

Directors' meetings

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

	Board Meetings Attended		Committee Meetings Attended					
			Marketing		Human Resources		Audit & Risk	
	A	B	A	B	A	B	A	B
Ian James Anson Ilsley	11	11	-	-	7	6	2	2
Kerrie Patricia Robinson	11	10	-	-	7	7	-	-
Andrew James Brown	11	11	-	-	-	-	2	2
Douglas Philip James Savarese	11	8	6	4	-	-	-	-
Terence Power	11	9	6	6	-	-	-	-
Alisha Anne Joynes	11	9	6	4	7	7	2	2
Adrian Paul Pitsikas	11	10	-	-	7	7	2	2

A - eligible to attend
B - number attended

Proceedings on behalf of the company

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

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

Non audit services

The company may decide to employ the auditor on assignments additional to their statutory duties where the auditor's expertise and experience with the company are important. Details of the amounts paid or payable to the auditor (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 audit and risk 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.

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 audit and risk 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.

Directors' report (continued)

Auditor's independence declaration

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

Signed in accordance with a resolution of the board of directors at Mandurah, Western Australia on 4 September 2017.

Ian James Anson Ilsley,
Chairman

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 Mandurah Community Financial Services Limited

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

i) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550
Dated: 4 September 2017

David Hutchings
Lead Auditor

Taxation | Audit | Business Services

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

Financial statements

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2017

	Notes	2017 $	2016 $
Revenue from ordinary activities	4	1,107,610	1,092,056
Employee benefits expense		(626,249)	(534,229)
Charitable donations, sponsorship, advertising and promotion		(134,146)	(135,635)
Occupancy and associated costs		(121,241)	(123,941)
Systems costs		(62,921)	(57,641)
Depreciation and amortisation expense	5	(19,391)	(18,727)
General administration expenses		(186,893)	(180,595)
Profit/(loss) before income tax		**(43,231)**	**41,288**
Income tax	6	11,690	(11,895)
Profit/(loss) after income tax		**(31,541)**	**29,393**
Total comprehensive income for the year attributable to the ordinary shareholders of the company:		**(31,541)**	**29,393**
Earnings per share		**¢**	**¢**
Basic earnings per share	23	(5.31)	4.94

The accompanying notes form part of these financial statements.

Balance Sheet
as at 30 June 2017

	Notes	2017 $	2016 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	1,140,730	1,238,001
Trade and other receivables	8	89,073	113,902
Current tax asset	12	8,213	3,551
Total Current Assets		**1,238,016**	**1,355,454**
Non-Current Assets			
Property, plant and equipment	10	36,950	44,317
Intangible assets	11	53,180	7,517
Deferred tax asset	12	8,982	-
Financial assets	9	54,846	-
Total Non-Current Assets		**153,958**	**51,834**
Total Assets		**1,391,974**	**1,407,288**
LIABILITIES			
Current Liabilities			
Trade and other payables	13	59,506	50,912
Provisions	14	23,101	13,778
Total Current Liabilities		**82,607**	**64,690**
Non-Current Liabilities			
Trade and other payables	13	38,144	-
Provisions	14	11,933	7,445
Deferred tax liabilities	12	-	2,708
Total Non-Current Liabilities		**50,077**	**10,153**
Total Liabilities		**132,684**	**74,843**
Net Assets		**1,259,290**	**1,332,445**
Equity			
Issued capital	15	594,490	594,490
Retained earnings	16	664,800	737,955
Total Equity		**1,259,290**	**1,332,445**

The accompanying notes form part of these financial statements.

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

	Issued capital $	Retained earnings $	Total equity $
Balance at 1 July 2015	**594,490**	**750,176**	**1,344,666**
Total comprehensive income for the year	-	29,393	29,393
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(41,614)	(41,614)
Balance at 30 June 2016	**594,490**	**737,955**	**1,332,445**
Balance at 1 July 2016	**594,490**	**737,955**	**1,332,445**
Total comprehensive income for the year	-	(31,541)	(31,541)
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(41,614)	(41,614)
Balance at 30 June 2017	**594,490**	**664,800**	**1,259,290**

The accompanying notes form part of these financial statements.

Statement of Cash Flows
for the year ended 30 June 2017

	Notes	2017 $	2016 $
Cash flows from operating activities			
Receipts from customers		1,183,448	1,156,025
Payments to suppliers and employees		(1,202,439)	(1,137,676)
Interest received		37,760	31,476
Income taxes paid		(4,662)	23,822
Net cash provided by operating activities	**17**	**14,107**	**73,647**
Cash flows from investing activities			
Payments for property, plant and equipment		(1,726)	(3,914)
Payments for intangible assets		(10,698)	-
Payments for financial assets		(59,955)	-
Dividends received		1,683	-
Net cash used in investing activities		**(70,696)**	**(3,914)**
Cash flows from financing activities			
Dividends paid		(41,614)	(41,614)
Net cash used in financing activities		**(41,614)**	**(41,614)**
Net increase/(decrease) in cash held		**(98,203)**	**28,119**
Cash and cash equivalents at the beginning of the financial year		1,238,933	1,209,882
Cash and cash equivalents at the end of the financial year	**7(a)**	**1,140,730**	**1,238,001**

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2017

Note 1. Summary of significant accounting policies

a) Basis of preparation

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

Compliance with IFRS

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

Critical accounting estimates

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

Historical cost convention

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

Comparative figures

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

Application of new and amended accounting standards

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

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

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

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

Only AASB 16 Leases, effective for the annual reporting period beginning on or after 1 January 2019 is likely to impact the company. This revised standard will require the branch lease 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®** branch at Halls Head, Western Australia.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Economic dependency - Bendigo and Adelaide Bank Limited (continued)

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

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

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

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

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

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

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

b) Revenue

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the company and any specific criteria have been met. Interest and fee revenue is recognised when earned. The gain or loss on disposal of property, plant and equipment is recognised on a net basis and is classified as income rather than revenue. All revenue is stated net of the amount of Goods and Services Tax (GST).

Revenue calculation

The franchise agreement provides that three forms of revenue may be earned by the company – margin, commission and fee income. Bendigo and Adelaide Bank Limited decides the form of revenue the company earns on different types of products and services.

The revenue earned by the company is dependent on the business that it generates. It may also be affected by other factors, such as economic and local conditions, for example, interest rates.

Note 1. Summary of significant accounting policies (continued)

b) Revenue (continued)

Core banking products

Bendigo and Adelaide Bank Limited has identified some Bendigo Bank Group products and services as 'core banking products'. It may change the products and services which are identified as core banking products by giving the company at least 30 days' notice. Core banking products currently include Bendigo Bank branded home loans, term deposits and at call deposits.

Margin

Margin is arrived at through the following calculation:

- Interest paid by customers on loans less interest paid to customers on deposits
- plus any deposit returns i.e. interest return applied by Bendigo and Adelaide Bank Limited for a deposit,
- minus any costs of funds i.e. interest applied by Bendigo and Adelaide Bank Limited to fund a loan.

Margin is paid on all core banking products. A funds transfer pricing model is used for the method of calculation of the cost of funds, deposit return and margin.

The company is entitled to a share of the margin earned by Bendigo and Adelaide Bank Limited (i.e. income adjusted for Bendigo and Adelaide Bank Limited's interest expense and interest income return). However, if this reflects a loss, the company incurs a share of that loss.

Commission

Commission is a fee paid for products and services sold. It may be paid on the initial sale or on an ongoing basis. Commission is payable on the sale of an insurance product such as home contents. Examples of products and services on which ongoing commissions are paid include leasing and Sandhurst Trustees Limited products.

Fee income

Fee income is a share of what is commonly referred to as 'bank fees and charges' charged to customers by Bendigo Bank Group entities including fees for loan applications and account transactions.

Discretionary financial contributions

In addition to margin, commission and fee income, and separate from the franchise agreement, Bendigo and Adelaide Bank Limited has also made discretionary financial payments to the company. These are referred to by Bendigo and Adelaide Bank Limited as a "Market Development Fund" (MDF).

The amount has been based on the volume of business attributed to a branch. The purpose of the discretionary payments is to assist with local market development activities, including community sponsorships and donations.

It is for the board to decide how to use the MDF.

The payments from Bendigo and Adelaide Bank Limited are discretionary and Bendigo and Adelaide Bank Limited may change the amount or stop making them at any time.

Ability to change financial return

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

Note 1. Summary of significant accounting policies (continued)

b) Revenue (continued)

Ability to change financial return (continued)

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

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

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

Monitoring and changing financial return

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

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

c) Income tax

Current tax

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

Deferred tax

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

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

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

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

c) Income tax (continued)

Deferred tax (continued)

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

Current and deferred tax for the period

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

d) Employee entitlements

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

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

e) Cash and cash equivalents

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

f) Trade receivables and payables

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

g) Property, plant and equipment

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

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

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

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

Note 1. Summary of significant accounting policies (continued)

h) Intangibles

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

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

i) Payment terms

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

j) Borrowings

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

k) Financial instruments

Recognition and initial measurement

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

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

Derecognition

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

Classification and subsequent measurement

(i) Loans and receivables

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

(ii) Held-to-maturity investments

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

(iii) Available-for-sale financial assets

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

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

Note 1. Summary of significant accounting policies (continued)

k) Financial instruments (continued)

Classification and subsequent measurement (continued)

(iv) Financial liabilities

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

Impairment

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

l) Leases

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

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

m) Provisions

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

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

o) Earnings per share

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

p) Goods and Services Tax

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

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

Note 1. Summary of significant accounting policies (continued)

p) Goods and Services Tax (continued)

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

Note 2. Financial risk management

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

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

(i) Market risk

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

(ii) Price risk

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

(iii) Credit risk

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

(iv) Liquidity risk

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

(v) Cash flow and fair value interest rate risk

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

(vi) Capital management

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

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

The distribution limit is the greater of:

(a) 20% of the profit or funds of the franchisee otherwise available for distribution to shareholders in that 12 month period; and

(b) subject to the availability of distributable profits, the relevant rate of return multiplied by the average level of share capital of the franchisee over that 12 month period where the relevant rate of return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period plus 5%.

Note 2. Financial risk management (continued)

The board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the year ended 30 June 2017 can be seen in the Statement of Profit or Loss and Other Comprehensive Income.

There were no changes in the company's approach to capital management during the year.

Note 3. Critical accounting estimates and judgements

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

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

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

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

Taxation

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

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

These judgements and assumptions are subject to risk and uncertainty. There is therefore a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in corresponding credit or charge to the Statement of Profit or Loss and Other Comprehensive Income.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience and the condition of the asset is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Impairment of assets

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

Note 3. Critical accounting estimates and judgements (continued)

Impairment of assets (continued)

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.

	2017 $	2016 $

Note 4. Revenue from ordinary activities

Operating activities:		
- gross margin	878,090	700,305
- services commissions	73,711	182,788
- fee income	120,030	123,257
- market development fund	10,000	50,000
Total revenue from operating activities	**1,081,831**	**1,056,350**
Non-operating activities:		
- interest received	21,407	35,706
- dividend received	1,683	-
- other revenue	2,689	-
Total revenue from non-operating activities	**25,779**	**35,706**
Total revenues from ordinary activities	**1,107,610**	**1,092,056**

Note 5. Expenses

Depreciation of non-current assets:		
- plant and equipment	3,639	3,227
- motor vehicle	5,454	5,504

	2017 $	2016 $
Note 5. Expenses (continued)		
Amortisation of non-current assets:		
- franchise fee	8,060	9,996
- renewal processing fee	2,238	-
	19,391	**18,727**
Bad debts	**281**	**(571)**

Note 6. Income tax expense/(credit)

	2017 $	2016 $
The components of tax expense/(credit) comprise:		
- Current tax	-	4,653
- Future income tax benefit attributable to losses	(1,080)	-
- Movement in deferred tax	(10,610)	5,528
- Adjustment to deferred tax to reflect change to tax rate in future periods	-	(246)
- Recoupment of prior year tax losses	-	1,960
	(11,690)	**11,895**
The prima facie tax on profit/(loss) from ordinary activities before income tax is reconciled to the income tax expense/(credit) as follows		
Operating profit/(loss)	(43,231)	41,288
Prima facie tax on profit/(loss) from ordinary activities at 27.5% (2016: 28.5%)	(11,888)	11,767
Add tax effect of:		
- non-deductible expenses	1,405	-
- timing difference expenses	9,205	(5,154)
- other deductible expenses	198	-
	(1,080)	**6,613**
Movement in deferred tax	(10,610)	5,528
Adjustment to deferred tax to reflect change of tax rate in future periods	-	(246)
	(11,690)	**11,895**

	2017 $	2016 $

Note 7. Cash and cash equivalents

	2017 $	2016 $
Cash at bank and on hand	152,104	173,412
Term deposits	988,626	1,064,589
	1,140,730	**1,238,001**

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:

	2017 $	2016 $
Cash at bank and on hand	152,104	173,412
Term deposits	988,626	1,064,589
	1,140,730	**1,238,001**

Note 8. Trade and other receivables

	2017 $	2016 $
Trade receivables	74,443	77,610
Prepayments	12,600	17,908
Other receivables and accruals	2,030	18,384
	89,073	**113,902**

Note 9. Financial assets

	2017 $	2016 $
Current		
Available for sale financial assets	**54,846**	**-**

Note 10. Property, plant and equipment

	2017 $	2016 $
Plant and equipment		
At cost	273,238	271,512
Less accumulated depreciation	(269,010)	(265,371)
	4,228	**6,141**
Motor vehicles		
At cost	43,630	43,630
Less accumulated depreciation	(10,908)	(5,454)
	32,722	**38,176**
Total written down amount	**36,950**	**44,317**

	2017 $	2016 $

Note 10. Property, plant and equipment (continued)

Movements in carrying amounts:

	2017 $	2016 $
Plant and equipment		
Carrying amount at beginning	6,141	5,504
Additions	1,726	3,914
Disposals	-	-
Less: depreciation expense	(3,639)	(3,277)
Carrying amount at end	**4,228**	**6,141**
Motor vehicles		
Carrying amount at beginning	38,176	43,630
Additions	-	-
Disposals	-	-
Less: depreciation expense	(5,454)	(5,454)
Carrying amount at end	**32,722**	**38,176**
Total written down amount	**36,950**	**44,317**

Note 11. Intangible assets

	2017 $	2016 $
Franchise fee		
At cost	111,192	100,000
Less: accumulated amortisation	(100,543)	(92,483)
	10,649	**7,517**
Renewal processing fee		
At cost	44,769	-
Less: accumulated amortisation	(2,238)	-
	42,531	**-**
Total written down amount	**53,180**	**7,517**

Note 12. Tax

	2017 $	2016 $
Current:		
Income tax refundable	**(8,213)**	**(3,551)**

	2017 $	2016 $

Note 12. Tax (continued)

	2017 $	2016 $
Non-Current:		
Deferred tax assets		
- accruals	885	782
- employee provisions	9,634	6,873
- tax losses carried forward	1,080	-
- listed shares	1,405	-
	13,004	**7,655**
Deferred tax liability		
- accruals	558	(5,179)
- deductible prepayments	3,464	(5,184)
	4,022	**(10,363)**
Net deferred tax asset/(liability)	**8,982**	**(2,708)**
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	**(11,690)**	**7,242**

Note 13. Trade and other payables

	2017 $	2016 $
Current:		
Trade creditors	21,813	6,775
Other creditors and accruals	37,693	44,137
	59,506	**50,912**
Non Current:		
Other creditors and accruals	**38,144**	**-**

Note 14. Provisions

	2017 $	2016 $
Current:		
Provision for annual leave	16,314	13,778
Provision for long service leave	6,787	-
	23,101	**13,778**
Non-Current:		
Provision for long service leave	**11,933**	**7,445**

	2017 $	2016 $
Note 15. Contributed equity		
594,490 ordinary shares fully paid (2016: 594,490)	**594,490**	**594,490**

Rights attached to shares

(a) Voting rights

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

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

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

(b) Dividends

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

(c) Transfer

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

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

Prohibited shareholding interest

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

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

- They control or own 10% or more of the shares in the company (the "10% limit").
- In the opinion of the board they do not have a close connection to the community or communities in which the company predominantly carries on business (the "close connection test").
- Where the person is a shareholder, after the transfer of shares in the company to that person the number of shareholders in the company is (or would be) lower than the base number (the "base number test"). The base number is 397. As at the date of this report, the company had 420 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.

Note 15. Contributed equity (continued)

Prohibited shareholding interest (continued)

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

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

	2017 $	**2016 $**

Note 16. Retained earnings

Balance at the beginning of the financial year	737,955	750,176
Net profit/(loss) from ordinary activities after income tax	(31,541)	29,393
Dividends paid or provided for	(41,614)	(41,614)
Balance at the end of the financial year	**664,800**	**737,955**

Note 17. Statement of cash flows

Reconciliation of profit/(loss) from ordinary activities after tax to net cash provided by operating activities

Profit/(loss) from ordinary activities after income tax	(31,541)	29,393
Adjustments for:		
- depreciation	9,093	8,731
- amortisation	10,298	9,996
- decrease in net market value of financial assets	5,109	-
- dividends received	(1,683)	-
Changes in assets and liabilities:		
- (increase)/decrease in receivables	24,828	(17,950)
- (increase)/decrease in other assets	(13,644)	33,009
- increase/(decrease) in payables	544	9,581
- increase/(decrease) in provisions	13,811	(1,821)
- increase/(decrease) in current tax liabilities	(2,708)	2,708
Net cash flows provided by operating activities	**14,107**	**73,647**

	2017 $	2016 $

Note 18. Leases

Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable - minimum lease payments:		
- not later than 12 months	92,467	67,517
- between 12 months and 5 years	346,751	-
	439,218	**67,517**

The operating lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. The leasewas renewed in March 2017.

Note 19. Auditor's remuneration

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

- audit and review services	4,850	5,250
- non audit services	1,540	2,255
	6,390	**7,505**

Note 20. Director and related party disclosures

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

Ian James Anson Ilsley
Kerrie Patricia Robinson
Andrew James Brown
Douglas Philip James Savarese
Terence Power
Alisha Anne Joynes
Adrian Paul Pitsikas

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

Transactions with related parties:

	2017 $	2016 $
Ian Ilsley is a director of Ward & Ilsley Partners Pty Ltd which supplied the company with accounting and taxation services during the financial year. During the financial year the total benefit Ward & Ilsley Partners Pty Ltd received was	28,325	25,260

Note 20. Director and related party disclosures (continued)

	2017	2016
Directors' Shareholdings		
Ian James Anson Ilsley	3,500	3,500
Kerrie Patricia Robinson	1,000	1,000
Andrew James Brown	500	500
Douglas Philip James Savarese	500	500
Terence Power	-	-
Alisha Anne Joynes	1,000	1,000
Adrian Paul Pitsikas	-	-

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

Note 21. Dividends paid or provided

a. Dividends paid during the year		
Current year dividend		
100% (2016: 100%) franked dividend - 7 cents (2016: 7 cents) per share	**41,614**	**41,614**
The tax rate at which dividends have been franked is 27.5% (2016: 30%).		
b. Franking account balance		
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	370,522	365,860
- franking debits that will arise from refund of income tax as at the end of the financial year	(8,213)	(3,551)
- 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:	**362,309**	**362,309**
- 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	**362,309**	**362,309**

Note 22. 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.

	2017 $	2016 $

Note 23. Earnings per share

	2017 $	2016 $
(a) Profit/(loss) attributable to the ordinary equity holders of the company used in calculating earnings per share	(31,541)	29,393

	Number	Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	594,490	594,490

Note 24. Events occurring after the reporting date

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

Note 25. Contingent liabilities and contingent assets

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

Note 26. Segment reporting

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

Note 27. Registered office/Principal place of business

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

Registered Office
C/- Ward & Ilsley Partners Pty Ltd.
55C Mandurah Terrace
Mandurah WA 6210

Principal Place of Business
Halls Head Shopping
Shop 7 Peelwood Parade
Halls Head WA 6210

Note 28. Financial instruments

Financial Instrument Composition and Maturity Analysis

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

	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	2017 $	2016 $	2017 $	2016 $	2017 $	2016 $	2017 $	2016 $	2017 $	2016 $	2017 %	2016 %
Financial assets												
Cash and cash equivalents	151,253	173,129	988,626	1,064,589	-	-	-	-	851	283	1.81	2.92
Receivables	-	-	-	-	-	-	-	-	74,443	77,610	N/A	N/A
Financial liabilities												
Payables	-	-	-	-	-	-	-	-	21,813	6,775	N/A	N/A

Net Fair Values

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

Credit Risk

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

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

Interest Rate Risk

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

Sensitivity Analysis

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

Notes to the financial statements (continued)

Note 28. Financial instruments (continued)

Sensitivity Analysis (continued)

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

	2017 $	**2016 $**
Change in profit/(loss)		
Increase in interest rate by 1%	11,399	12,377
Decrease in interest rate by 1%	(11,399)	(12,377)
Change in equity		
Increase in interest rate by 1%	11,399	12,377
Decrease in interest rate by 1%	(11,399)	(12,377)

Directors' declaration

In accordance with a resolution of the directors of Mandurah 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 2017 and of its performance for the financial year ended on that date; and

  (ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

(c) the audited remuneration disclosures set out in the remuneration report section of the directors' report comply with Accounting Standard AASB124 Related Party Disclosures and the Corporations Regulations 2001.

This declaration is made in accordance with a resolution of the board of directors.

Ian James Anson Ilsley,
Chairman

Signed on the 4th of September 2017.

AFS
Partners in success
Chartered Accountants

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PO Box 454, Bendigo 3552
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Independent auditor's report to the members of Mandurah Community Financial Services Limited

Report on the audit of the financial statements

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

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

What we have audited
Mandurah 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: 4 September 2017

David Hutchings
Lead Auditor

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