Annual Report 2018

Molonglo Financial Services Limited

Canberra **Community Bank**® Group

ABN 77 100 097 443

Contents

Chairman's report

For year ending 30 June 2018

Welcome to the 16th Annual Report of Molonglo Financial Services Limited (MFSL).

I am pleased to announce that MFSL achieved an after-tax profit of $117,529 for the 2017/18 financial year. This is the fourth consecutive year back in profit.

With our new Franchise Agreement signed in September 2017, MFSL switched to a new revenue share arrangement, based on an even split of profit on the market-based Funds Transfer Price. The effect on our revenue was immediately positive, as expected.

Our focus through the rest of the year was to benefit all of our stakeholders as our budget grew. This began with improving the customer experience. After completely refurbishing our Calwell **Community Bank**® Branch, we will undertake one 'cosmetic upgrade' per year to our remaining branches, starting with Wanniassa in October 2018. MFSL also recruited a dedicated Mobile Lender in December 2017. He is free from the operational requirements of being branch based and is thus able to achieve better lending results than the traditional Branch Manager.

For our shareholders, we continued to maintain stability in our dividend distributions, with a $0.02 unfranked dividend paid on 1 December 2017. We also continued our successful reinvigoration of the Low Volume Market (LVM), a practice that is now being replicated across the **Community Bank**® network.

We are continuing to invest in our staff and ensure they are adaptive to the ever-changing requirements of the banking industry and our customers. A recent Staff Engagement Survey yielded very positive results, and we aim to improve on these through our Human Resources Strategy.

Our total community contributions for the year were in excess of $60,000, with the cumulative total now beyond $1.3 million since we commenced operations. With our Community Impact Plan (presented to shareholders in July) taking shape, we will transition this year to sponsorship spends as decided by our stakeholders.

In the second half of 2018, our company will refresh our strategic plan to ensure we have a clear path forward to grow and adapt to the coming changes in the banking environment. I thank my fellow Directors, old and new, for their continued efforts and support throughout the year.

Neale Guthrie
Chair

Managers’ report

For year ending 30 June 2018

Welcome to the 2018 Manager’s report.

The revenue across our four branches for 2017/18 increased by approximately $90,000 throughout the year. The sources of this came from our Deposits, Wealth and Other Business (Financial Planning, Debtor Finance, Community Sector Banking products) with growth of $13 million, $0.3 million and $7.3 million, respectively. The lending book for the company contracted by $4.4 million. The total Funds Under Management increased $16.3 million to a total of $341.4 million across 10,000+ customers.

There were 3.0% less transactions in our branches compared to 2016/17, continuing the downward trend seen in previous years. As a result, there continues to be a focus in bringing the branch to the customers and getting our staff out into the community.

The trends across our branches were as follows:

Calwell Community Bank® Branch

The Calwell **Community Bank®** Branch overcame discharges of $7 million to grow the lending book by $2.1 million to $48.5 million. Deposits grew by $2.9 million and Other Business products increased by $3.3 million to increase the total Funds Under Management to $107.6 million. While this was positive growth across the book, branch income dropped by approximately $10,000 for the year.

As stated in the 2017 Managers’ report, the focus for the Calwell **Community Bank®** Branch was improving the customer experience. A new customer facing coin machine was leased, and a full refurbishment was conducted in October 2017. This refurbishment has given the customers a better experience with reduced wait times, and a greater emphasis put on relationships instead of transactions.

This year saw the departure of our long-standing Senior Branch Manager Damian McNamara. Damian left at the end of the financial year in June 2018, and will be sorely missed.

Curtin Community Bank® Branch

The overall Funds Under Management of the Curtin **Community Bank®** Branch increased by $0.6 million over the year as a result of $3.7 million growth in Other Business. Lending and Deposits were both down $2.1 million and $1.1 million, respectively.

As forecasted in the 2017 Managers’ report, the Curtin **Community Bank®** Branch achieved income growth of $60,000 to achieve its first overall profit since opening in 2012. It is now expected to maintain steady profits over the years to come.

We note there is some uncertainty about the Curtin redevelopment. The Curtin **Community Bank®** Branch will continue to be a pillar in the Curtin community, and we will continue to grow the community. The focus for 2018/19 will be to market more towards the Molonglo Valley and seek growth from this new development.

Jerrabomberra Community Bank® Branch

The Jerrabomberra **Community Bank®** Branch grew by $4.3 million throughout the financial year. This 9% growth came from lending and deposit growth of $1.2 million and $3.0 million, respectively. The branch income increased by $22,000, however the branch continues to run at a loss.

Our Senior Branch Manager Darren Manton left the company early into the 2017/18 financial year. As a result, the company took the opportunity to restructure and invest in a dedicated Mobile Relationship Manager, Bryan Dacey. Since commencing in late December, Bryan has added over $20 million to the lending pipeline across all four **Community Bank®** branches, with the majority being allocated to the Jerrabomberra **Community Bank®** Branch, where he is based.

We continue to build profile with the local community and deepen relationships with our community groups.

Wanniassa Community Bank® Branch

The Wanniassa **Community Bank®** Branch grew by $3.4 million in total Funds Under Management throughout the year. However, this included a $5.2 million (14.2%) decrease in total lending. Deposits increased by $8.2 million. Revenue for the branch increased overall by $20,000, fueled mainly by the $8.2 million increase in deposits, and the effects of the new revenue share model.

The focus of the branch going forward will be predominantly on lending, with its longer behavioural term, to ensure that the branch continues to remain profitable into the future. We look forward to improving our customer experience in October when we carry out our first update since 2011.

Caleb was offered the Branch Manager position in April 2018. The team at Wanniassa pride themselves on delivering great customer service and will continue to maintain consistency in sale targets and increasing the lending growth for the 2018/19 financial year.

Chloe Heath
Branch Manager - Curtin

Caleb Te Moananui
Branch Manager - Wanniassa

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

Treasurer's report

For year ending 30 June 2018

I present the following Treasurer's report for Molonglo Financial Services Limited (MFSL) for the year ended 30 June 2018.

2018 has been a positive year for the company and the Board and I are pleased to deliver an after-tax profit of $117,529.

As noted in the 2017 Treasurer's report, MFSL negotiated with Bendigo Bank a new consolidated franchise agreement. This new franchise agreement also brought with it a new revenue share arrangement. The effects of this arrangement can be seen in Note 4, where Gross Margin income has increased and Service Commissions have decreased. The overall effect was positive.

Delays in the negotiation of this new agreement meant that two annual payments for our franchise fee were made in 2017/18, with consistent payments being made from 2018/19 onwards.

At the 2017 Annual General Meeting, we outlined the possibility of financing half of our Calwell **Community Bank®** Branch refurbishment. I wish to advise that the company financed the entirety of the refurbishment from cash and took on no debt in relation to this. As a result of this payment, and the two franchise fee payments, the company had a net cash outflow during the year of $236,188.

The net asset position of the company is $1.319 million, primarily made up of cash and cash equivalents in excess of $600,000 and property plant and equipment in excess of $600,000 (inclusive of the Calwell refurbishment).

Looking ahead, the Board is focused on our continued and sustained growth, especially with the introduction of our mobile lender and we are keen to have this aspect of our business grow. We look forward to the coming year or two where we will come fully out of our period of losses and are able once again to pay franked dividends to shareholders. In addition, we will also seek to maximise community contributions through the Community Enterprise Foundation™ and a real engagement with our local community.

Alison Bleathman CA
Treasurer and Company Secretary

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:

Neale Desmond Guthrie

Chair

Occupation: Self-employed Consultant

Qualifications, experience and expertise: Prior to his retirement in September 2014, Neale had nearly nine years' experience as a Senior Executive in the ACT Public Service. He has served on five management boards for ACT Government managed agencies. Neale also has over 30 years of management experience in various leadership and management roles in the Australian Regular Army, private industry and ACT Public Service. Neale has attained the following degrees: Master of Science (Management), Graduate Diploma (Management), Bachelor of Engineering (Civil).

Special responsibilities: Chair: Board of Directors, Chair: Business Development, Sponsorships and Marketing committee. Ex-Officio: Audit, Finance and Governance committee, Ex-Officio: Human Resources committee.

Interest in shares: 1,250

Brian Joseph Brown

Deputy Chair

Occupation: Councillor

Qualifications, experience and expertise: Brian is currently a Councillor at Queanbeyan Pelarang Regional Council and prior to the merging of the two Councils (Queanbeyan City Council and Pelarang Council) served as Councillor at Queanbeyan City Council (2012-16). Brian is also employed as an Electorate Officer for the Federal Member of Eden-Monaro. Formerly was the Deputy Chair at Regional Development Australia Southern Inland, State Member's Representative of the Queanbeyan Local Traffic Committee, Member of the Queanbeyan Health Services Advisory Committee, Executive Committee of the Queanbeyan Business Council and Vice President of the Jerrabomberra Residents' Association. Prior to this, Brian served in the Australian Army, Royal Australian Artillery for 10 years.

Special responsibilities: Deputy Chair: Board of Directors, Chair: Human Resources Committee, Deputy Chair: Audit and Finance Committee.

Interest in shares: 4,500

Alison Louise Bleathman

Treasurer

Occupation: Chartered Accountant

Qualifications, experience and expertise: Alison is a Senior Manager in PwC's Private Clients team in Canberra and has over 12 years experience as an accountant in both public and private sectors. Alison specialises in business advisory, financial and management accounting, statutory financial statement preparation, financial viability assessments, business process improvement, project management and taxation. Alison is also heavily involved in Corporate Responsibility at PwC and is the volunteer treasurer for the Girl Guides Association for the ACT/SE NSW region. Alison holds a Bachelor or Commerce (Accounting), Graduate Diploma of Chartered Accounting and is a member of the Institute of Chartered Accountants of Australia and New Zealand.

Special responsibilities: Company Secretary, Treasurer, Chair: Audit, Finance and Governance committee.

Interest in shares: Nil

Directors (continued)

Klarisa Dominka Cengic

Director

Occupation: Business Owner

Qualifications, experience and expertise: Klarisa currently owns and operates a wholefoods based café in Civic. For three years prior, Klarisa was the Marketing Coordinator at Molonglo Financial Services. Having completed a Bachelor of Commerce degree at the ANU, majoring in marketing and international business, Klarisa is passionate about marketing, social media, strategy design and implementation, and helping small business thrive.

Special responsibilities: Member: Business Development, Sponsorships and Marketing committee.

Interest in shares: Nil

Yvonne Alice Gillett

Director

Occupation: Retired

Qualifications, experience and expertise: Yvonne has extensive experience as the Chief Financial Officer of the Canberra Raiders Group, and is currently a Board Member of Canberra Raiders Pty Ltd. She has been working as a CPA for many years and holds a Bachelor of Economics. Yvonne is also a member of the Rotary Club of Woden Daybreak.

Special responsibilities: Member: Audit, Finance and Governance committee.

Interest in shares: 2,500

Radmila Noveska

Director

Occupation: Electorate Officer

Qualifications, experience and expertise: Radmila was admitted as a Solicitor to the Supreme Court of the ACT in October 2010. Since then she has worked as a paralegal/solicitor for Galilee Solicitors, a legal officer for United Voice, and most recently as an Employment Relations Consultant for Employsure. Radmila is also a Member of the Queanbeyan Children's Special Needs Group, and the President of the Queanbeyan West Public P&C Association. Radmila was also elected as Councillor on Queanbeyan Pelarang Regional Council in September 2017.

Special responsibilities: Member: Human Resources Committee.

Interest in shares: Nil

Robbie Jack Rynehart

Director (Appointed 30 October 2017)

Occupation: Adviser

Qualifications, experience and expertise: Robbie is a communications and strategy professional with over a decade of experience in government relations and campaign management. He has worked as an Economic Development Adviser to ACT Chief Minister and as Press Secretary to the Minister for Defence Material. He has played key roles in developing and delivering successful campaigns to attract economic development to the local region. Robbie holds a Master of Communications from Griffith University.

Special responsibilities: Member: Business Development, Sponsorships and Marketing committee.

Interest in shares: Nil

Directors (continued)

Nigel William Phair

Director (Appointed 24 May 2018)

Occupation: Consultant

Qualifications, experience and expertise: Nigel Phair is an influential analyst on the intersection of technology, crime and society. Adjunct Professor Phair has published three acclaimed books on the international impact of cybercrime, is a regular media commentator and provides executive and board advice on strategy, risk & governance of technology. In a 21 year career with the Australian Federal Police he achieved the rank of Detective Superintendent and headed up investigations at the Australian High Tech Crime Centre for four years. He is founder and managing director of a technology 'start up' company and has chaired a number of not-for-profit organisations.

Special responsibilities: Member: Risk and Audit Committee.

Interest in shares: 9,000

Robert Gwynfor Bowness Evans

Director (Resigned 29 January 2018)

Occupation: CEO, Auctioneer

Qualifications, experience and expertise: Robert has been Chair and CEO of online auction company Allbids.com.au Pty Ltd since 2001. In addition to this, he has experience in business development, auctioneering, sports management, derivative settlements and trade support. Robert formerly served as Director and Vice Captain of the Royal Canberra Golf Club.

Special responsibilities: Member: Business Development, Sponsorships and Marketing committee.

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 Alison Louise Bleathman. Alison was appointed to the position of secretary on 8 September 2014.

Refer above for details of Alison's experience and expertise.

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 $
117,529	36,134

Dividends

	Year ended 30 June 2018	
	Cents	**$**
Dividends paid in the year	2	75,962

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.

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: Audit, Finance and Governance		Committee Meetings Attended: Human Resources & Organisational Development		Committee Meetings Attended: Business Development, Sponsorships and Marketing	
	A	B	A	B	A	B	A	B
Neale Desmond Guthrie	9	8	8	4	3	2	9	8
Brian Joseph Brown	9	7	8	7	3	3	-	-
Alison Louise Bleathman	9	6	8	7	-	-	-	-
Klarisa Dominka Cengic	9	6	-	-	-	-	9	8
Yvonne Alice Gillett	9	5	8	4	-	-	-	-
Radmila Noveska	9	5	-	-	3	2	-	-
Robbie Jack Rynehart (Appointed 30 October 2017)	9	6	-	-	-	-	9	5
Nigel William Phair (Appointed 24 May 2018)	4	4	4	-	-	-	-	-
Robert Gwynfor Bowness Evans (Resigned 29 January 2018)	5	2	-	-	-	-	5	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, finance and governance committee and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

Non audit services (continued)

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

- all non-audit services have been reviewed by the audit, finance and governance 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 13.

Signed in accordance with a resolution of the board of directors at Canberra, Australian Capital Territory on 30 August 2018.

Brian Joseph Brown,
Deputy 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 Molonglo Financial Services Limited

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

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

Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550
Dated: 30 August 2018

David Hutchings
Lead Auditor

Taxation | Audit | Business Services

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

Financial statements

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

	Notes	2018 $	2017 $
Revenue from ordinary activities	4	2,617,180	2,527,597
Employee benefits expense		(1,534,325)	(1,452,410)
Charitable donations, sponsorship, advertising and promotion		(108,140)	(123,260)
Occupancy and associated costs		(272,722)	(273,638)
Systems costs		(138,521)	(122,297)
Depreciation and amortisation expense	5	(113,805)	(138,796)
Finance costs	5	(3,362)	(3,914)
General administration expenses		(284,195)	(316,487)
Profit before income tax expense		**162,110**	**96,795**
Income tax expense	6	(44,581)	(60,661)
Profit after income tax expense		**117,529**	**36,134**
Total comprehensive income for the year attributable to the ordinary shareholders of the company:		**117,529**	**36,134**

Earnings per share		**¢**	**¢**
Basic earnings per share	23	3.09	0.95

The accompanying notes form part of these financial statements.

Balance Sheet
as at 30 June 2018

	Notes	2018 $	2017 $
ASSETS			
Current assets			
Cash and cash equivalents	7	604,088	840,276
Trade and other receivables	8	211,189	214,702
Total current assets		**815,277**	**1,054,978**
Non-current assets			
Property, plant and equipment	9	608,393	358,816
Intangible assets	10	160,698	124,738
Deferred tax asset	11	147,162	191,743
Total non-current assets		**916,253**	**675,297**
Total assets		**1,731,530**	**1,730,275**
LIABILITIES			
Current liabilities			
Trade and other payables	12	180,298	237,318
Borrowings	13	45,064	30,212
Provisions	14	69,236	64,919
Total current liabilities		**294,598**	**332,449**
Non-current liabilities			
Trade and other payables	12	92,884	56,858
Borrowings	13	7,471	48,164
Provisions	14	17,032	14,826
Total non-current liabilities		**117,387**	**119,848**
Total liabilities		**411,985**	**452,297**
Net assets		**1,319,545**	**1,277,978**
EQUITY			
Issued capital	15	2,223,293	2,223,293
Accumulated losses	16	(903,748)	(945,315)
Total equity		**1,319,545**	**1,277,978**

The accompanying notes form part of these financial statements.

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

	Note	Issued capital $	Accumulated losses $	Total equity $
Balance at 1 July 2016		2,223,293	(905,487)	1,317,806
Total comprehensive income for the year		-	36,134	36,134
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	21	-	(75,962)	(75,962)
Balance at 30 June 2017		**2,223,293**	**(945,315)**	**1,277,978**
Balance at 1 July 2017		2,223,293	(945,315)	1,277,978
Total comprehensive income for the year		-	117,529	117,529
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	21	-	(75,962)	(75,962)
Balance at 30 June 2018		**2,223,293**	**(903,748)**	**1,319,545**

The accompanying notes form part of these financial statements.

Statement of Cash Flows
for the year ended 30 June 2018

	Notes	2018 $	2017 $
Cash flows from operating activities			
Receipts from customers		2,868,599	2,765,804
Payments to suppliers and employees		(2,611,196)	(2,457,510)
Interest received		8,269	11,067
Interest paid		(3,362)	(3,914)
Net cash provided by operating activities	**17**	**262,310**	**315,447**
Cash flows from investing activities			
Payments for property, plant and equipment		(315,462)	(26,265)
Proceeds from sale of property, plant and equipment		-	9,091
Payments for intangible assets		(81,233)	-
Net cash used in investing activities		**(396,695)**	**(17,174)**
Cash flows from financing activities			
Net proceeds/(repayment) of borrowings		(25,841)	4,809
Dividends paid	21	(75,962)	(75,962)
Net cash used in financing activities		**(101,803)**	**(71,153)**
Net increase/(decrease) in cash held		**(236,188)**	**227,120**
Cash and cash equivalents at the beginning of the financial year		840,276	613,156
Cash and cash equivalents at the end of the financial year	**7(a)**	**604,088**	**840,276**

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.

<u>Compliance with IFRS</u>

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

<u>Critical accounting estimates</u>

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.

<u>Historical cost convention</u>

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.

<u>Comparative figures</u>

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

<u>Application of new and amended accounting standards</u>

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

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

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

There are also a number of accounting standards and interpretations issued by the AASB that become effective in future accounting periods.

The company has elected not to apply any accounting standards or interpretations before their mandatory operative date for the annual reporting period beginning 1 July 2017. These future accounting standards and interpretations therefore have no impact on amounts recognised in the current period or any prior period.

AASB 16 Leases is effective for annual periods beginning on or after 1 January 2019. The standard introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

Note 1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Application of new and amended accounting standards (continued)

The company has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend on future economic conditions, including the company's borrowing rate at 1 January 2019, the composition of the lease portfolio at that date, the latest assessment of whether the company will exercise any lease renewal options and the extent to which the company chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the company will recognise new assets and liabilities for its operating leases of its branches. As at 30 June 2018, the company's future minimum lease payment under non-cancellable operating leases amount to $921,567, on an undiscounted basis (see Note 18).

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

Economic dependency - Bendigo and Adelaide Bank Limited

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank®** branches at Calwell, Wanniassa and Curtin in the Australian Capital Territory and Jerrabomberra in New South Wales.

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.

Note 1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Economic dependency - Bendigo and Adelaide Bank Limited (continued)

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.

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.

Note: In very simplified terms, currently, deposit return means the interest Bendigo and Adelaide Bank Limited gets when it invests the money the customer deposits with it. The cost of funds means the interest Bendigo and Adelaide Bank Limited pays when it borrows the money to give a customer a loan.

For those products and services on which margin is paid, 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.

Products and services on which margin is paid include variable rate deposits and variable rate home loans.

Commission

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

Fee income

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

Note 1. Summary of significant accounting policies (continued)

b) Revenue (continued)

Discretionary financial contributions

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

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

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

Ability to change financial return

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

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

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

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

Monitoring and changing financial return

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

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

c) Income tax

Current tax

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

Note 1. Summary of significant accounting policies (continued)

c) Income tax (continued)

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

d) Employee entitlements

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

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

e) Cash and cash equivalents

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

f) Trade receivables and payables

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

Note 1. Summary of significant accounting policies (continued)

g) Property, plant and equipment

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

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

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

- 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

<u>Recognition and initial measurement</u>

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

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

<u>Derecognition</u>

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

Note 1. Summary of significant accounting policies (continued)

k) Financial instruments (continued)

Classification and subsequent measurement

(i) Loans and receivables

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

(ii) 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.

Impairment

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

l) Leases

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

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

m) Provisions

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

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

n) Issued capital

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

o) Earnings per share

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

Note 1. Summary of significant accounting policies (continued)

p) Goods and Services Tax

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

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

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

Note 2. Financial risk management

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

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

(i) Market risk

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

(ii) Price risk

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

(iii) Credit risk

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

(iv) Liquidity risk

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

(v) Cash flow and fair value interest rate risk

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

(vi) Capital management

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

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

Note 2. Financial risk management (continued)

(vi) Capital management (continued)

The distribution limit is the greater of:

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

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

The board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the year ended 30 June 2018 can be seen in the Statement of Profit or Loss and Other Comprehensive Income.

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

Note 3. Critical accounting estimates and judgements

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

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

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

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

Taxation

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

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

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

Estimation of useful lives of assets

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

Note 3. Critical accounting estimates and judgements (continued)

Impairment of assets

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

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

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

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

Note 4. Revenue from ordinary activities

	2018 $	2017 $
Operating activities:		
- gross margin	2,105,418	1,790,969
- services commissions	152,227	348,772
- fee income	219,599	236,926
- market development fund	131,667	137,500
Total revenue from operating activities	**2,608,911**	**2,514,167**
Non-operating activities:		
- interest received	8,269	6,692
- profit on sale of non-current assets	-	6,738
Total revenue from non-operating activities	**8,269**	**13,430**
Total revenues from ordinary activities	**2,617,180**	**2,527,597**

	2018 $	2017 $

Note 5. Expenses

	2018 $	2017 $
Depreciation of non-current assets:		
- plant and equipment	10,640	32,673
- leasehold improvements	32,081	29,970
- motor vehicle	23,164	22,858
Amortisation of non-current assets:		
- franchise agreement	8,721	8,762
- franchise renewal fee	39,199	25,866
- establishment fee	-	18,667
	113,805	**138,796**
Finance costs:		
- interest paid	**3,362**	**3,914**
Bad debts	**9,526**	**1,432**

Note 6. Income tax expense

	2018 $	2017 $
The components of tax expense comprise:		
- Recoupment of prior year tax losses	13,610	34,205
- Movement in deferred tax	30,971	(1,720)
- Adjustment to deferred tax to reflect change to tax rate	-	19,376
- Under/over provision in respect to prior years	-	8,800
	44,581	**60,661**
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows		
Operating profit	162,110	96,795
Prima facie tax on profit from ordinary activities at 27.5% (2017: 27.5%)	44,581	26,619
Add tax effect of:		
- non-deductible expenses	-	5,867
- timing difference expenses	(13,610)	3,391
- other deductible expenses	-	(1,672)
	30,971	**34,205**
Movement in deferred tax	13,610	(1,720)
Adjustment to deferred tax to reflect change of tax rate	-	19,376
Under/over provision in respect to prior years	-	8,800
	44,581	**60,661**

	2018 $	2017 $

Note 7. Cash and cash equivalents

	2018 $	2017 $
Cash at bank and on hand	566,893	722,444
Term deposits	37,195	117,832
	604,088	**840,276**
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	566,893	722,444
Term deposits	37,195	117,832
	604,088	**840,276**

Note 8. Trade and other receivables

	2018 $	2017 $
Trade receivables	203,035	201,118
Prepayments	6,926	11,878
Other receivables and accruals	1,228	1,706
	211,189	**214,702**

Note 9. Property, plant and equipment

	2018 $	2017 $
Leasehold improvements		
At cost	753,702	474,389
Less accumulated depreciation	(237,339)	(205,258)
	516,363	**269,131**
Plant and equipment		
At cost	331,540	295,391
Less accumulated depreciation	(283,488)	(272,848)
	48,052	**22,543**
Motor vehicles		
At cost	92,655	92,655
Less accumulated depreciation	(48,677)	(25,513)
	43,978	**67,142**
Total written down amount	**608,393**	**358,816**

	2018 $	2017 $
Note 9.Property, plant and equipment (continued)		
Movements in carrying amounts:		
Leasehold improvements		
Carrying amount at beginning	269,131	299,101
Additions	279,313	-
Less: depreciation expense	(32,081)	(29,970)
Carrying amount at end	**516,363**	**269,131**
Plant and equipment		
Carrying amount at beginning	22,543	54,774
Additions	36,149	3,101
Disposals	-	(2,659)
Less: depreciation expense	(10,640)	(32,673)
Carrying amount at end	**48,052**	**22,543**
Motor vehicles		
Carrying amount at beginning	67,142	67,189
Additions	-	23,164
Disposals	-	(353)
Less: depreciation expense	(23,164)	(22,858)
Carrying amount at end	**43,978**	**67,142**
Total written down amount	**608,393**	**358,816**

Note 10. Intangible assets

Franchise fee		
At cost	200,518	183,742
Less: accumulated amortisation	(171,353)	(162,632)
	29,165	**21,110**
Renewal processing fee		
At cost	342,745	275,641
Less: accumulated amortisation	(211,212)	(172,013)
	131,533	**103,628**
Total written down amount	**160,698**	**124,738**

	Notes	2018 $	2017 $

Note 11. Tax

	Notes	2018 $	2017 $
Non-Current:			
Deferred tax assets			
- accruals		1,249	1,394
- employee provisions		23,724	21,930
- tax losses carried forward		139,152	170,124
		164,125	**193,448**
Deferred tax liability			
- accruals		338	469
- property, plant and equipment		16,625	1,236
		16,963	**1,705**
Net deferred tax asset		**147,162**	**191,743**
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income		**44,581**	**29,653**

Note 12. Trade and other payables

	Notes	2018 $	2017 $
Current:			
Trade creditors		5,438	7,351
Other creditors and accruals		174,860	229,693
Lease incentive		-	274
		180,298	**237,318**
Non-Current:			
Other creditors and accruals		**92,884**	**56,858**

Note 13. Borrowings

	Notes	2018 $	2017 $
Current:			
Credit card facilities		4,370	4,666
Chattel mortgage	18	40,694	25,546
		45,064	**30,212**
Non-Current:			
Chattel mortgage	**18**	**7,471**	**48,164**

Note 13. Borrowings (continued)

The company has two chattel mortgages in place.

The first was for the purchase of three motor vehicles, with a total amount financed of $76,440. Repayments are $1,788 per month with the final instalment due in April 2019. Interest is recognised at an average rate of 4.95%. The chattel mortgage is secured by a fixed and floating charge over the company's assets.

The second was for the purchase of a motor vehicle, with a total amount financed of $25,480. Repayments are $591 per month with the final instalment due in August 2019. Interest is recognised at an average rate of 4.55%. The chattel mortgage is secured by a fixed and floating charge over the company's assets.

	2018 $	2017 $

Note 14. Provisions

Current:		
Provision for annual leave	61,170	57,844
Provision for long service leave	8,066	7,075
	69,236	**64,919**
Non-Current:		
Provision for long service leave	**17,032**	**14,826**

Note 15. Issued capital

2,520,014 ordinary shares fully paid (2017: 2,520,014)	1,008,007	1,008,007
494,401 ordinary shares fully paid (Jerrabomberra) (2017: 494,401)	494,401	494,401
783,700 ordinary shares fully paid (Curtin) (2017: 783,700)	783,700	783,700
Less: equity raising expenses (Jerrabomberra)	(32,082)	(32,082)
Less: equity raising expenses (Curtin)	(30,733)	(30,733)
	2,223,293	**2,223,293**

Rights attached to shares

(a) Voting rights

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

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

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

Note 15. Issued capital (continued)

Rights attached to shares (continued)

(b) Dividends

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

(c) Transfer

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

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

Prohibited shareholding interest

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

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

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

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

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

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

Note 16. Accumulated losses

	2018 $	2017 $
Balance at the beginning of the financial year	(945,315)	(905,487)
Net profit from ordinary activities after income tax	117,529	36,134
Dividends provided for or paid	(75,962)	(75,962)
Balance at the end of the financial year	**(903,748)**	**(945,315)**

	2018 $	2017 $

Note 17. Statement of cash flows

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

	2018 $	2017 $
Profit from ordinary activities after income tax	117,529	36,134
Non cash items:		
- depreciation	65,885	85,501
- amortisation	47,920	53,295
- profit on disposal of asset	-	(6,079)
Changes in assets and liabilities:		
- decrease in receivables	3,513	39,388
- decrease in other assets	44,581	60,661
- increase/(decrease) in payables	(23,641)	39,975
- increase in provisions	6,523	6,572
Net cash flows provided by operating activities	**262,310**	**315,447**

Note 18. Leases

	2018 $	2017 $
Chattel mortgage commitments		
Payable - minimum repayments:		
- not later than 12 months	42,295	28,550
- between 12 months and 5 years	7,552	49,847
Minimum repayments	**49,847**	**78,397**
Less future finance charges	(1,682)	(4,687)
Present value of minimum repayments	**48,165**	**73,710**
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	239,071	236,007
- between 12 months and 5 years	682,312	933,814
- greater than 5 years	-	31,560
	921,383	**1,201,381**

Note 18. Leases (continued)

The rental lease agreement on the Calwell branch premises is a non-cancellable lease with a five year term, expiring on 31 August 2022. Two options are available for further terms of five years each. The rent payable is currently $62,937 per annum plus GST with annual increases set at 3%.

The rental lease agreement on the Wanniassa branch premises is a non-cancellable lease with a five year term, expiring 30 November 2022. The rent payable is currently $42,429 per annum with no GST applicable. Annual rent increases are set at 3%.

The rental lease agreement on the Jerrabomberra branch premises is a non-cancellable lease with a five year term, expiring 31 July 2021. The rent payable is currently $70,539 per annum plus GST with annual increases set at 4%.

The rental lease agreement on the Curtin branch premises is a non-cancellable lease with a five year term, expiring 31 May 2022. There is an option available for a further five year term. The rent payable is currently $58,811 per annum with no GST applicable. Annual rent increases are set at 4%.

The company rents an administration office at Canberra. The lease agreement is a non-cancellable lease with a two year term, expiring 31 August 2020. The rent payable is currently $11,196 per annum plus GST.

Note 19. Auditor's remuneration

	2018 $	**2017 $**
Amounts received or due and receivable by the auditor of the company for:		
- audit and review services	6,950	7,400
- non audit services	4,265	3,115
	11,215	**10,515**

Note 20. Director and related party disclosures

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

Neale Desmond Guthrie
Brian Joseph Brown
Alison Louise Bleathman
Klarisa Dominka Cengic
Yvonne Alice Gillett
Radmila Noveska
Robbie Jack Rynehart (Appointed 30 October 2017)
Nigel William Phair (Appointed 24 May 2018)
Robert Gwynfor Bowness Evans (Resigned 29 January 2018)

Note 20. Director and related party disclosures (continued)

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

Transactions with related parties:

	2018 $	2017 $
During the prior period the company sold an asset using online auction company Allbids.com.au Pty Ltd of which director Robert Evans is Chair and CEO. Fees incurred by the company for this service totalled:	-	168

Directors' shareholdings	**2018**	**2017**
Neale Desmond Guthrie	1,250	-
Brian Joseph Brown	4,500	4,500
Alison Louise Bleathman	-	-
Klarisa Dominka Cengic	-	-
Yvonne Alice Gillett	2,500	-
Radmila Noveska	-	-
Robbie Jack Rynehart (Appointed 30 October 2017)	-	-
Nigel William Phair (Appointed 24 May 2018)	9,000	-
Robert Gwynfor Bowness Evans (Resigned 29 January 2018)	-	-

Note 21. Dividends paid or provided

	2018 $	**2017 $**
a. Dividends paid during the year		
Current year dividend		
Unfranked dividend - 2 cents (2016: 2 cents) per share	**75,962**	**75,962**
b. Franking account balance		
franking account balance as at the end of the financial year	**2,920**	**2,920**

	2018 $	2017 $

Note 22. Key management personnel disclosures

The directors received remuneration including superannuation, as follows:

	2018 $	2017 $
Neale Desmond Guthrie	6,046	4,008
Brian Joseph Brown	2,153	1,750
Alison Louise Bleathman	2,010	1,674
Klarisa Dominka Cengic	1,292	1,218
Yvonne Alice Gillett	1,184	913
Radmila Noveska	645	685
Robbie Jack Rynehart (Appointed 30 October 2017)	1,364	-
Nigel William Phair (Appointed 24 May 2018)	431	-
Robert Gwynfor Bowness Evans (Resigned 29 January 2018)	323	913
	15,448	**11,161**

Note 23. Earnings per share

	2018 $	2017 $
(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	117,529	36,134

	Number	Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	3,798,115	3,798,115

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 Wanniassa, Calwell, and Curtin in the Australian Capital Territory, and in Jerrabomberra in New South Wales, 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

Level 4
15 Moore Street
Canberra ACT 2601

Principal Place of Business

Unit 13 & 14 Wanniassa Shopping Centre
Sangster Place
Wanniassa ACT 2905

Shop 19-21 Calwell Shopping Centre
Webber Crescent
Calwell ACT 2905

Shop 2A Jerrabomberra Shopping Centre
2 Limestone Avenue
Jerrabomberra NSW 2917

Shop 1 Curtin Shopping Centre
20 Curtin Place
Curtin ACT 2605

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	**2018 $**	**2017 $**	**2018 $**	**2017 $**	**2018 $**	**2017 $**	**2018 $**	**2017 $**	**2018 $**	**2017 $**	**2018 %**	**2017 %**
Financial assets												
Cash and cash equivalents	566,794	722,161	37,195	117,832	-	-	-	-	99	283	1.48	1.28
Receivables	-	-	-	-	-	-	-	-	203,035	201,118	N/A	N/A
Financial liabilities												
Interest bearing liabilities	4,370	4,666	40,694	25,546	7,471	48,164	-	-	-	-	4.75	4.75
Payables	-	-	-	-	-	-	-	-	5,438	7,351	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.

Note 28. Financial instruments (continued)

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%	5,515	7,616
Decrease in interest rate by 1%	(5,515)	(7,616)
Change in equity		
Increase in interest rate by 1%	5,515	7,616
Decrease in interest rate by 1%	(5,515)	(7,616)

Directors' declaration

In accordance with a resolution of the directors of Molonglo 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.

Brian Joseph Brown,
Deputy Chair

Signed on the 30th of August 2018.

Independent audit report

Partners in success
Chartered Accountants

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

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

Report on the audit of the financial statements

Our opinion

In our opinion, the financial report of Molonglo 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

Molonglo 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: 30 August 2018

David Hutchings
Lead Auditor

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