Annual Report 2016

Murrumbeena Community Financial Services Limited

ABN 47 104 667 361

Murrumbeena **Community Bank**® Branch

Contents

Chairman's report

For year ending 30 June 2016

Since the opening of the Branch in April 2004, each year has presented its own set of new challenges. From the original challenge of returning banking to our much loved village of Murrumbeena, to evolving the branch into a true community asset, then, facing the repercussions of the 2009 Global Financial Crisis and now the low home loan and deposit interest rate environment.

For many the low interest rate on our home loans is a bonus, which allows homeowners to really capitalise and pay down debt. For many in the community it brings a raft of challenges which need to be acknowledged and managed. Self-funded retirees for example are really feeling the strain of having to stretch the return on their investments. So too do community banks need to adjust their profitability expectations in an environment where profit margins on traditional lending products have been very much reduced.

With the Murrumbeena Board of directors, the emphasis on addressing this challenge was by careful management of expenses rather than reducing our community investment. Careful management of the expenditure has resulted in the company delivering on its community investment yet again whilst being able to post a 10c fully franked dividend for the 2016 year to its shareholders without compromising on our staffing and the quality of our branches ability to meet customer expectation.

Such is the recognition of the value of our shareholding as well as the support from our community and shareholders that the company has seen a significant uptake of available shares over the last twelve months and there is a waiting list of interested parties awaiting the opportunity to be part of the Murrumbeena Community Financial Services story.

In a challenging year globally it is important to reflect upon how critical local community can be to the success and sustainability of a business such as Murrumbeena **Community Bank**® and how community banking feeds into, rather than feeds from, the success of that community. Increasingly community groups and organizations are looking to partner with our business as they see the possibilities of successfully achieving aims with an organisation that shares their vision and aligns with their culture and values. Community banking should reflect the aspirations of the community it serves otherwise it can never truly deliver on the Bank's aim of being the country's most community connected bank.

There is no doubt that the face of banking is changing and will continue to transform but what will not change is the need for people and organisations to have access to trusted advisors and specialists who are there when help is required for them to achieve what is important to them. Things like financial support, specialist guidance, sponsorship, networking opportunities and sometimes just someone who will take the time to understand their situation and respond to them in a timely manner, not ask them to ring a 1300 number or go to the end of the queue.

Much is expected of a Bank and more so of a self-proclaimed **Community Bank**®. I am proud to say that I believe our staff and directors deliver on the promise of being the community's bank.

Over many years we have been fortunate to have the services of great staff who have worked hard every day to ensure our customers experience exceptional service. On behalf of the Board of Directors I would like to thank our Manager Sue Foley and the staff of our Branch, Julie Scott, Kerryn Thompson, Chris English, Lorraine Crabb, Karen Dewberry, and Jason Grubb for their hard work this year, which was rightly acknowledged at the Regional Awards in August.

Our Board and Management have made a commitment to afford our staff the chance to learn, develop and aspire. Great opportunities are provided within our Branch for our staff to explore but from time to time our much-valued staff find that new and exciting opportunities present themselves elsewhere within Bendigo Bank network and we are proud to say that Kerryn Thompson accepted a Branch Managers role in Queensland where she is enjoying great success.

Julie Scott left us this year after 10 years of dedication to not only the branch but also the staff, board, customers, shareholders and partnered groups. The standard of excellence and productivity she created in her work set the bar high in community banking and she formed many lasting friendships along the journey. I recall it took two years to convince her to join our employ and from there we formed a strong bond in our focus to achieve success for the

For year ending 30 June 2016

branch and positive outcomes in strengthening the community. On behalf of the board I would like to thank Julie for the amazing work she has done in that time and I personally thank her for her dedication, passion, community spirit and friendship that has helped drive us to success.

I would like to thank my fellow board members for their continued commitment to good governance and community strengthening which drives the standard we strive to achieve. We welcome John Coulson OAM to the board as of November 2015. John brings great knowledge, passion and dedication for all things community, is a strong supporter of the community bank model and a great asset to the board and the community.

We thank you, our shareholders, without your early commitment and ongoing support through your banking there would be no "community" in front of your "bank". Are you a customer? Please consider that it is the banking business which is critical to the community success of your branch. With everyone's banking there is more to contribute to community projects and ongoing dividend payments.

Changes to financial model
A core principle of the **Community Bank**® model is a 50/50 share of margin earned on core banking products. To better reflect this core principal, a new Revenue Share model was introduced from 1 July, 2016.

Bendigo and Adelaide Bank Ltd ("BEN") has adopted a Funds Transfer Pricing (FTP) model for **Community Bank**® Revenue Share, effective 1 July 2016. BEN applies its FTP methodology to regulatory reporting, performance management and revenue share. The FTP model:

- is a method used to measure how much each account or product is contributing to overall profitability, given a current cost of marginal funding.
- gives the BEN Group a better understanding of the net interest margin component of overall profitability.
- assigns a FTP rate based on the repricing characteristics and behavioural duration of products.

The BEN FTP revenue share sources **Community Bank**® product data and then applies BEN's FTP rates to calculate revenue share for each **Community Bank**® branch by core banking product i.e. loans and deposits. The BEN FTP revenue share is reported to each **Community Bank**® company on a monthly basis.

The FTP methodology is reviewed annually with changes approved by BEN's Asset & Liability Management Committee (ALMAC). BEN's Board Risk Committee approves changes to the FTP Policy.

Subject to the size of the impact of the changes to a **Community Bank**® company's revenue share and a calculated baseline revenue, transitional support arrangements have been made by BEN for those companies adversely affected by these changes to the financial model, for a maximum period of up to 3 years. The purpose of this transitional support is to provide the **Community Bank**® company with a revenue baseline while it grows and diversifies its business to increase revenue.

Based on the above methodology the income paid by BEN to Murrumbeena Community Financial Services Ltd, will see a reduction in the income received for the 16/17 year, which based on a snapshot of the business levels and interest rates as at 30 June 2016, is around $63,752 for the financial year. I do stress that this is an approximation at this point and many factors can affect this amount, be it changes in interest rates, increase or decrease in business levels and in fact the type of business that is written, so we will not know the full impact on the company until June 2017.

Dennis Tarrant
Chairman

Manager's report

For year ending 30 June 2016

Over the last 12 months the team at Murrumbeena has worked hard to once again exceed expectations across all areas of the business. In a very competitive environment where low interest rates have led to customers being able to pay down large amounts of capital the branch was still able to exceed its lending growth target of $5m. To achieve this growth the lending team had to settle $19m to allow for amortisation of around $8m and discharges of around $6m. Across all aspects of the business the branch exceeded total business holdings of $164m.

Our customers understand that just by banking with Murrumbeena **Community Bank**® they are contributing to their community. Every day we strive to create a business which is credible, ethical and truly community driven whilst giving the best service. Our challenge to the community is to support us so we can extend our reach and involve ourselves in wider community outcomes. We look to our Shareholders to champion our efforts as they are the ones who have actively supported our efforts by investing in our company. It is pleasing to note that such is the success of our branch that there are no shares available for purchase at this time as people have seen the value in our business and want to be part of the story.

With technology providing customers with a multitude of online options when it comes to interacting with their bank we are seeing fewer customers attending our branch to complete non complex transactions such as deposits and withdrawals. Our Branch does however continue to provide an important face to face resource as we find increasingly that customers need access to trusted advisors when their needs go beyond transactional banking and they need assistance with far more complex matters such as account maintenance, lending and financial advice.

The interactions we have with our customers therefore remain crucial and our front line staff go the extra mile every day to provide service excellence and as a result our branch has once again been recognised with several awards at the Regional Awards in August. Over the year we had some changes to our staff with Kerryn Thompson being promoted to Branch Manager of the Mission Beach **Community Bank**® in far north Queensland. Kerryn had provided a key support role within our Lending Team and had led the region in helping customers protect areas of risk by providing suitable insurance products where needed. We wish Kerryn every success in her new role.

After many years of exceptional service and hard work Julie Scott retired from her role as Customer Relationship Manager. Julie's contribution to the branch and to her community cannot be underestimated. During the period where Murrumbeena was looking to replace their inaugural manager, Julie Scott stepped in as caretaker manager for many months and kept Murrumbeena Branch on track. Since then Julie has assisted with the development of other staff – always willing to share her knowledge and experience to help others. Julie was also very generous with her time and volunteered often at the various community events with which the branch was involved. I thank Julie sincerely for all the support she has provided to me over the years and commend her dedication to the building of the Murrumbeena Branch into such a successful community asset. We wish her all the best in her retirement but know that Julie won't be putting her feet up any time soon and she will be continuing to work hard for her community in a variety of ways.

It is difficult to replace two experienced staff members but Murrumbeena was fortunate to attract both Jason Grubb and Keith Rawdin to our team. Jason and Keith are seconded from the Bendigo Bank network and bring a variety of skills across customer service and lending which will further re-inforce the branch's ability to build our business and continue to provide the community with a quality banking resource.

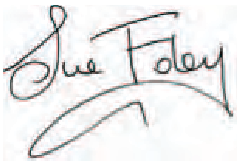
Jason and Keith join a very dedicated team who have worked tirelessly to make Murrumbeena the stand out branch in the Eastern Region. Lorraine Crabb, Chris English and Karen Dewberry have supported the branch during the staff transition period. For the branch to have worked through the challenges of losing two senior staff and still achieve the required business growth is a testament to all of our team.

Murrumbeena is also fortunate to be strongly supported across other areas of the business with our Financial Advisor Ben Dascal and Senior Manager Business Banking, Andrew Hogan who assist our customers with a range of options in the wealth and commercial space.

For year ending 30 June 2016

For a team to be successful there must be strong and determined leadership and our Branch is fortunate to have a Board of Directors who provide a vision and are passionately dedicated to ensuring positive community outcomes. On behalf of the Murrumbeena staff I thank our Board for the support they have provided over the last year and we look forward to the new financial year.

Looking back on our year I am very proud of our efforts in challenging circumstances but when 1 July comes around we turn our attention from past successes and focus on the year to come with the intention of continuing to build our business and create a happy workplace for our staff and a truly community committed bank.



Susan Foley
Branch Manager

Director’s report

Your directors submit the financial statements of the company for the financial year ended 30 June 2016.

Directors

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

Dennis Keith Tarrant
Chairman
Occupation: Chief Executive Officer
Qualifications, experience and expertise: Occupation: CEO Banking and Finance. Planning, strategy, business development, marketing, community investment and staff engagement, development and retention. Experience and Expertise: Banking, finance and administration. Hospitality management and consulting. Wholesale distribution.
Interest in shares: 501

Anthony Gerard Lee
Deputy Chairman
Occupation: Director - Real Estate Agent
Qualifications, experience and expertise: Local business owner and estate agent. Director Thomson Real Estate 17 years. Licensed Real Estate Agent 23 years. Local property experience 33 years.
Special responsibilities: Deputy Chair, Property Committee and Share Liaison Officer
Interest in shares: 1,001

Nicholas Roland Scott
Treasurer
Occupation: Financial Controller
Qualifications, experience and expertise: Bachelor of Business (Accounting). Diploma of Financial Services. Fellow of CPA Australia. Specialist in Hospitality and Shared Services.
Special responsibilities: Treasurer and Audit Committee
Interest in shares: 5,000

Russell James Harper
Secretary
Occupation: Operations Manager
Qualifications, experience and expertise: Bachelor of Business (Business Administration). Over 25 years experience in financial services including insurance, superannuation and wealth management. Operation Management, Strategic Planning & Execution Risk Management and Compliance.
Special responsibilities: Compliance Committee
Interest in shares: Nil

Elpis Korosidis
Director
Occupation: Lawyer
Qualifications, experience, expertise: Bachelor of Law. Bachelor of Arts. Advanced Diploma of Family Law. Banking and Finance Law.
Special responsibilities: Human Resources and Compliance
Interest in shares: Nil

John Charles Coulson
Director (*Appointed 30 November 2015)*
Occupation: Education Consultant – Part Time
Qualifications, experience and expertise:College Principal - Retired, Education Consultant - Part Time. President of Lions Club. Governor of the Shrine of Remembrance.
Special responsibilities: Member of the Community Investment, Marketing and Strategic Planning Committees.
Interest in shares: Nil

Penni Alison Nicholls
Director *(Resigned 30 August 2016)*
Occupation: Business Development Manager
Qualifications, experience and expertise: Cert IV in Training & Development. Social Worker. Channel Manager. Category Manager.
Special responsibilities: Marketing & Sales Committee
Interest in shares: Nil
Other directorships: Energy Assured Limited

Eric John Wanless Attwood
Director *(Resigned 1 February 2016)*
Occupation: Company Director
Qualifications, experience and expertise: Newsagent, Business Owner and Company Director.
Special responsibilities: Marketing Committee
Interest in shares: 8,001

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 Russell Harper. Russell was appointed to the position of secretary on 17 February 2014.

Russell has a Bachelor of Business with Skills in operations management strategic planning and execution, risk management and compliance. He also has more than 25 years financial services experience.

Principal Activities

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

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

Operating results

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

	Year ended 30 June 2016 $	Year ended 30 June 2015 $
	94,636	70,784

Dividends	Year ended 30 June 2016 Cents	$
Final dividends recommended:	10	59,486
Dividends paid in the year:		
- As recommended in the prior year report	10	59,486

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.

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 19 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	
	Eligible	*Attended*
Dennis Keith Tarrant	12	12
Anthony Gerard Lee	12	11
Nicholas Roland Scott	12	12
Russell James Harper	12	9
Elpis Korosidis	12	6
John Charles Coulson *(Appointed 30 November 2015)*	7	4
Penni Alison Nicholls *(Resigned 30 August 2016)*	12	10
Eric John Wanless Attwood *(Resigned 1 February 2016)*	7	2

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*.

The company may decide to employ the auditor on assignments additional to their statutory duties where the auditor's expertise and experience with the company are important. Details of the amounts paid or payable to the auditor (Andrew Frewin Stewart) for audit and non audit services provided during the year are set out in the notes to the accounts.

The board of directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

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

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

Signed in accordance with a resolution of the board of directors at Murrumbeena, Victoria on 26 September 2016.

Dennis Keith Tarrant, Chairman

Auditor's independance declaration

Partners in success

Chartered Accountants

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

As lead auditor for the audit of Murrumbeena Community Financial Services Ltd for the year ended 30 June 2016, 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: 26 September 2016

David Hutchings
Lead Auditor

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P: (03) 5443 0344 | F: (03) 5443 5304 | 61-65 Bull St./PO Box 454 Bendigo Vic. 3552 | afs@afsbendigo.com.au | www.afsbendigo.com.au

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Financial statements

Statement of Comprehensive Income for the Year Ended 30 June 2016

	Notes	2016 $	2015 $
Revenue from ordinary activities	4	1,112,258	1,036,679
Employee benefits expense		(549,440)	(582,143)
Charitable donations, sponsorship, advertising and promotion		(213,522)	(141,022)
Occupancy and associated costs		(60,884)	(64,571)
Systems costs		(21,610)	(22,776)
Depreciation and amortisation expense	5	(25,279)	(25,944)
Finance costs	5	(18)	(2)
General administration expenses		(108,702)	(96,910)
Profit before income tax		**132,803**	**103,311**
Income tax expense	6	(38,167)	(32,527)
Profit after income tax		94,636	70,784
Total comprehensive income for the year		**94,636**	**70,784**
Earnings per share for profit attributable to the ordinary shareholders of the company:		¢	¢
Basic earnings per share	22	15.91	11.90

The accompanying notes form part of these financial statements

Balance sheet as at 30 June 2016

	Notes	2016 $	2015 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	362,741	314,717
Trade and other receivables	8	87,359	68,471
Total Current Assets		**450,100**	**383,188**
Non-Current Assets			
Property, plant and equipment	9	92,372	103,909
Intangible assets	10	36,647	50,389
Deferred tax asset	11	8,920	15,512
Total Non-Current Assets		**137,939**	**169,810**
Total Assets		**588,039**	**552,998**
LIABILITIES			
Current Liabilities			
Trade and other payables	12	36,498	102,829
Current tax liabilities	11	18,712	11,469
Provisions	13	26,774	28,679
Total Current Liabilities		**81,984**	**142,977**
Non-Current Liabilities			
Provisions	13	6,650	5,252
Total Non-Current Liabilities		**6,650**	**5,252**
Total Liabilities		**88,634**	**148,229**
Net Assets		**499,405**	**404,769**
Equity			
Issued capital	14	565,517	565,517
Accumulated losses	15	(66,112)	(160,748)
Total Equity		**499,405**	**404,769**

The accompanying notes form part of these financial statements

Financial statements (continued)

Statement of changes in equity for the year ended 30 June 2016

	Issued capital $	Accumulated losses $	Total equity $
Balance at 1 July 2014	565,517	(172,046)	393,471
Total comprehensive income for the year	-	70,784	70,784
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(59,486)	(59,486)
Balance at 30 June 2015	565,517	(160,748)	404,769
Balance at 1 July 2015	565,517	(160,748)	404,769
Total comprehensive income for the year	-	94,636	94,636
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	-	-
Balance at 30 June 2016	565,517	(66,112)	499,405

The accompanying notes form part of these financial statements

Statement of cashflows for the year ended 30 June 2016

	Notes	2016 $	2015 $
Cash flows from operating activities			
Receipts from customers		1,190,299	1,130,704
Payments to suppliers and employees		(1,068,221)	(1,001,470)
Interest received		9,782	7,979
Interest paid		(18)	(2)
Income taxes paid		(24,332)	(23,036)
Net cash provided by operating activities	16	107,510	114,175
Cash flows from investing activities			
Payments for property, plant and equipment		-	(700)
Net cash used in investing activities		-	(700)
Cash flows from financing activities			
Dividends paid		(59,486)	(59,486)
Net cash used in financing activities		(59,486)	(59,486)
Net increase in cash held		48,024	53,989
Cash and cash equivalents at the beginning of the financial year		314,717	260,728
Cash and cash equivalents at the end of the financial year	7(a)	362,741	314,717

The accompanying notes form part of these financial statements

Notes to the financial statements

For the Year Ended 30 June 2016

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

The following amendments to accounting standards issued by the Australian Accounting Standards Board (AASB) became mandatorily effective for accounting periods beginning on or after 1 July 2015, and are therefore relevant for the current financial year.

- AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality.
- AASB 2015-4 Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent.

None of the 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 2015, materially affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

The following accounting standards and interpretations issued by the Australian Accounting Standards Board (AASB) become effective in future accounting periods.

	Effective for annual reporting periods beginning on or after
• AASB 9 Financial Instruments, and the relevant amending standards.	1 January 2018
• AASB 15 Revenue from Contracts with Customers and AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15.	1 January 2018
• AASB 16 Leases	1 January 2019
• AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations.	1 January 2016
• AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation.	1 January 2016
• AASB 2014-6 Amendments to Australian Accounting Standards – Agriculture: Bearer Plants.	1 January 2016

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

a) Basis of preparation *(continued)*

Application of new and amended accounting standards *(continued)*

	Effective for annual reporting periods beginning on or after
• AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements.	1 January 2016
• AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.	1 January 2018
• AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle.	1 January 2016
• AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101.	1 January 2016
• AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception.	1 January 2016
• AASB 2016-1 Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses.	1 January 2017
• AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107.	1 January 2017

The company has not elected to apply any accounting standards or interpretations before their mandatory operative date for the annual reporting period beginning 1 July 2015. Therefore the abovementioned accounting standards or interpretations have no impact on amounts recognised in the current period or any prior period.

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 Murrumbeena, Victoria.

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®** 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.

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

a) Basis of preparation *(continued)*

Economic dependency - Bendigo and Adelaide Bank Limited *(continued)*

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

Over the period from September 2013 to February 2015, Bendigo and Adelaide Bank Limited conducted a review of the **Community Bank®** model, known as 'Project Horizon'. This was conducted in consultation with the community banking network. The objective of the review was to develop a shared vision of the **Community Bank®** model that positions it for success now and for the future.

The outcome of that review is that the fundamental franchise model and community participation remain unchanged. Changes to be implemented over a three year period reflect a number of themes, including a culture of innovation, agility and flexibility, network collaboration, director and staff development and a sustainable financial model. This will include changes to the financial return for **Community Bank®** companies from 1 July 2016. A funds transfer pricing model will be used for the method of calculation of the cost of funds, deposit return and margin. All revenue paid on core banking products will be through margin share. Margin on core banking products will be shared on a 50/50 basis.

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.

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

b) Revenue *(continued)*

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. From 1 July 2016, both will mean the cost for Bendigo and Adelaide Bank Limited to borrow the money in the market.

Products and services on which margin is paid include variable rate deposits and variable rate home loans. From 1 July 2016, examples include Bendigo Bank branded at call deposits, term deposits and home loans.

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.

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. This currently also includes Bendigo Bank branded fixed rate home loans and term deposits of more than 90 days, but these will become margin products from 1 July 2016.

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.

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.

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

b) Revenue *(continued)*

Monitoring and changing financial return *(continued)*

As discussed above in relation to Project Horizon, among other things, there will be changes in the financial return for **Community Bank®** companies from 1 July 2016. This includes 50% share of margin on core banking products, all core banking products become margin products and a funds transfer pricing model will be used for the method of calculation of the cost of funds, deposit return and margin.

The Board is yet to appreciate the full impact of the above changes on our revenue moving forward. We would anticipate that by the time of this year's AGM we will be able to inform our shareholders of the likely outcomes of the new model.

The Board is continuing to work with Bendigo and Adelaide Bank Ltd to understand any potential changes to revenue and will provide further details as appropriate in due course.

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.

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.

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

f) Trade receivables and payables

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.

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

g) Property, plant and equipment

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

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

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

- leasehold improvements	40	years
- plant and equipment	2.5 - 40	years

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.

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

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

(iv) *Financial liabilities*
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.

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:

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 2016 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.

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.

Note 3. Critical accounting estimates and judgements *(continued)*

Impairment of assets *(continued)*

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	**2016 $**	**2015 $**
Operating activities:		
- services commissions	1,104,385	1,028,700
Total revenue from operating activities	1,104,385	1,028,700
Non-operating activities:		
- interest received	7,873	7,979
Total revenue from non-operating activities	7,873	7,979
Total revenues from ordinary activities	1,112,258	1,036,679

Note 5. Expenses

Depreciation of non-current assets:		
- plant and equipment	5,033	5,612
- leasehold improvements	6,504	6,589
Amortisation of non-current assets:		
- franchise agreement	2,291	2,309
- franchise renewal fee	11,451	11,434
	25,279	25,944
Finance costs:		
- interest paid	18	2
Bad debts	66	866

Note 6. Income tax expense

The components of tax expense comprise:		
- Current tax	36,314	34,905
- Movement in deferred tax	6,268	(3,195)
- Under/over provision in respect to prior years	(4,737)	-
- Adjustment to deferred tax to reflect change to tax rate in future periods	322	817
	38,167	32,527

Note 6. Income tax expense *(continued)*

	2016 $	2015 $
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows		
Operating profit	132,803	103,311
Prima facie tax on profit from ordinary activities at 28.5% (2015: 30%)	37,849	30,993
Add tax effect of:		
- non-deductible expenses	232	717
- timing difference expenses	(1,767)	3,195
	36,314	34,905
Movement in deferred tax	6,268	(3,195)
- Under/over provision in respect to prior years	(4,737)	-
Adjustment to deferred tax to reflect change of tax rate in future periods	322	817
	38,167	32,527

Note 7. Cash and cash equivalents

Cash at bank and on hand	145,798	104,661
Term deposits	216,943	210,056
	362,741	314,717

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	145,798	104,661
Term deposits	216,943	210,056
	362,741	314,717

Note 8. Trade and other receivables

Trade receivables	80,043	59,789
Prepayments	7,271	6,728
Other receivables and accruals	45	1,954
	87,359	68,471

Note 9. Property, plant and equipment

Leasehold improvements		
At cost	102,527	102,527
Less accumulated depreciation	(49,108)	(42,604)
	53,419	59,923
Plant and equipment		
At cost	87,875	87,875
Less accumulated depreciation	(48,922)	(43,889)
	38,953	43,986
Total written down amount	92,372	103,909

Note 9. Property, plant and equipment *(continued)*

Movements in carrying amounts:	**2016 $**	**2015 $**
Leasehold improvements		
Carrying amount at beginning	59,923	66,512
Additions	-	-
Disposals	-	-
Less: depreciation expense	(6,504)	(6,589)
Carrying amount at end	53,419	59,923
Plant and equipment		
Carrying amount at beginning	43,986	48,898
Additions	-	700
Disposals	-	-
Less: depreciation expense	(5,033)	(5,612)
Carrying amount at end	38,953	43,986
Total written down amount	92,372	103,909

Note 10. Intangible assets

Franchise fee		
At cost	82,930	82,930
Less: accumulated amortisation	(76,822)	(74,531)
	6,108	8,399
Renewal processing fee		
At cost	114,645	114,645
Less: accumulated amortisation	(84,106)	(72,655)
	30,539	41,990
Total written down amount	36,647	50,389

Note 11. Tax

Current:		
Income tax payable	18,712	11,469
Non-Current:		
Deferred tax assets		
- accruals	715	698
- employee provisions	14,692	15,370
	15,407	16,068
Deferred tax liability		
- accruals	12	556
- property, plant and equipment	6,475	-
	6,487	556
Net deferred tax asset	8,920	15,512
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	6,592	(2,379)

Note 12. Trade and other payables

Trade creditors	4,603	6,384
Other creditors and accruals	31,895	96,445
	36,498	102,829

Note 13. Provisions

	2016 $	2015 $
Current:		
Provision for annual leave	19,062	11,766
Provision for long service leave	7,712	16,913
	26,774	28,679
Non-Current:		
Provision for long service leave	6,650	5,252

Note 14. Contributed equity

594,857 Ordinary shares fully paid (2015: 594,857)	594,857	594,857
Less: equity raising expenses	(29,340)	(29,340)
	565,517	565,517

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).

Rights attached to shares *(continued)*

(c) *Transfer*

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

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

Prohibited shareholding interest

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

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

Note 14. Contributed equity *(continued)*

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 15. Accumulated losses	**2016 $**	**2015 $**
Balance at the beginning of the financial year	(160,748)	(172,046)
Net profit from ordinary activities after income tax	94,636	70,784
Dividends paid or provided for	-	(59,486)
Balance at the end of the financial year	(66,112)	(160,748)

Note 16. Statement of cash flows

Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities		
Profit from ordinary activities after income tax	94,636	70,784
Non cash items:		
- depreciation	11,537	12,201
- amortisation	13,742	13,743
Changes in assets and liabilities:		
- (increase)/decrease in receivables	(18,888)	(1,108)
- (increase)/decrease in other assets	6,592	(1,978)
- increase/(decrease) in payables	(6,845)	706
- increase/(decrease) in provisions	(507)	8,358
- increase/(decrease) in current tax liabilities	7,243	11,469
Net cash flows provided by operating activities	107,510	114,175

Note 17. Leases

Operating lease commitments Non-cancellable operating leases contracted for but not capitalised in the financial statements Payable - minimum lease payments:		
- not later than 12 months	45,239	45,010
- between 12 months and 5 years	79,168	123,776
- greater than 5 years		-
	124,407	168,786

The Murrumbeena community bank lease had a non-cancellable lease with a five-year term, with rent payable monthly in advance. This lease will expire in March 2019 and has another 5 year option available once expired.

The Murrumbeena community bank lease is currently unsigned while utilities are being resolved. New lease is expected to be signed once clarification is completed.

Note 18. Auditor's remuneration

	2016 $	2015 $
Amounts received or due and receivable by the auditor of the company for:		
- audit and review services	4,100	3,950
- share registry services	2,420	3,121
- other non audit services	3,182	2,200
	9,702	9,271

Note 19. Director and related party disclosures

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

Dennis Keith Tarrant
Anthony Gerard Lee
Nicholas Roland Scott
Russell James Harper
Elpis Korosidis
John Charles Coulson *(Appointed 30 November 2015)*
Penni Alison Nicholls *(Resigned 30 August 2016)*
Eric John Wanless Attwood *(Resigned 1 February 2016)*

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

Directors Shareholdings	**2016**	**2015**
Dennis Keith Tarrant	501	501
Anthony Gerard Lee	1,001	1,001
Nicholas Roland Scott	5,000	5,000
Russell James Harper	-	-
Elpis Korosidis	-	-
John Charles Coulson *(Appointed 30 November 2015)*	-	-
Penni Alison Nicholls *(Resigned 30 August 2016)*	-	-
Eric John Wanless Attwood *(Resigned 1 Februray 2016)*	8,001	8,001

There was no movement in directors shareholdings during the year.

Note 20. Dividends paid or provided

		2016 $	2015 $
a.	***Dividends paid during the year***		
	Prior year proposed final 2016: 100% (2015: 100%) franked dividend - 10 cents (2015: 10 cents) per share	59,486	59,486
b.	***Dividends proposed and recognised as a liability***		
	Current year dividend 2016: 100% (2015: 100%) franked dividend - Nil cents (2015: 10 cents) per share	-	59,486
c.	***Dividends proposed and not recognised as a liability***		
	Current year dividend 2016: 100% (2015: 100%) franked dividend - 10 cents (2015: Nil cents) per share	59,486	-

The tax rate at which dividends have been franked is 30% (2015: 30%).

Dividends proposed will be franked at a rate of 30% (2015: 30%).

Note 20. Dividends paid or provided *(continued)*	**2016 $**	**2015 $**
d. Franking account balance		
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	66,416	70,340
- franking credits that will arise from payment of income tax as at the end of the financial year	18,712	11,470
- franking debits that will arise from the payment of dividends recognised as a liability at the end of the financial year	(25,494)	(25,494)
Franking credits available for future financial reporting periods:	59,634	56,316
Net franking credits available	59,634	56,316

Note 21. Key Management Personnel Disclosures

Key Management Personnel Remuneration

For the year ended 30 June 2016 the directors received total remuneration including superannuation, as follows:

	2015 $
Dennis Keith Tarrant	76,649
Anthony Gerard Lee	-
Nicholas Roland Scott	-
Russell James Harper	-
Elpis Korosidis	-
John Charles Coulson *(Appointed 30 November 2015)*	-
Penni Alison Nicholls *(Resigned 30 August 2016)*	-
Eric John Wanless Attwood *(Resigned 1 February 2016)*	-
	76,649

Dennis Tarrant was appointed to the staff position of Chief Executive Officer of Murrumbeena Community Financial Services Limited on 1 October 2013.

Dennis Tarrant's remuneration is based on key performance indicators that relate to growth of footings, profit growth, staff engagement, development and retention, growth of community investment and appropriate allocation to strategic community partners, increased depth of community relationships and partnerships, community investment program return on investment, appropriate financial control for the business, good governance and compliance, succession planning and board engagement, development and retention. Dennis reports to the board of Murrumbeena Community Financial Services Limited. The position is 0.7 fulltime equivalent.

No other director of the company receives remuneration for services as a company director or committee member. No director's fees have been paid as the positions are held on a voluntary basis.

Community Bank® Directors' Privileges Package

The board has adopted the **Community Bank®** Directors' Privileges Package. The package is available to all directors, who can elect to avail themselves of the benefits based on their personal banking with the **Community Bank®** branch at Murrumbeena. There is no requirement to own BEN shares and there is no qualification period to qualify to utilise the benefits. The package mirrors the benefits currently available to Bendigo and Adelaide Bank Limited shareholders. The total benefits received by the Directors from the Directors' Privilege Package are $Nil for the year ended 30 June 2016 (2015: $967).

Note 22.	Earnings per share	2016 $	2015 $
(a)	Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	94,636	70,784
		Number	Number
(b)	Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	594,857	594,857

Note 23. Events occurring after the reporting date

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

Note 24. Contingent liabilities and contingent assets

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

Note 25. Segment reporting

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

Note 26. Registered office/Principal place of business

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

Registered Office	Principal Place of Business
436 Neerim Road	436 Neerim Road
Murrumbeena VIC 3163	Murrumbeena VIC 3163

Note 27. Financial instruments

Financial Instrument Composition and Maturity Analysis

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

Financial instrument	Floating interest		Fixed interest rate maturing in						Non interest bearing		Weighted average	
			1 year or less		Over 1 to 5 years		Over 5 years					
	2016 $	2015 $	2016 $	2015 $	2016 $	2015 $	2016 $	2015 $	2016 $	2015 $	2016 %	2015 %
Financial assets												
Cash and cash equivalents	145,085	103,948	216,943	210,056	-	-	-	-	713	713	2.11	2.81
Receivables	-	-	-	-	-	-	-	-	87,359	68,471	N/A	N/A
Financial liabilities												
Payables	-	-	-	-	-	-	-	-	36,498	102,829	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 econor

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

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 2016, the effect on profit and equity as a result of changes in interest rate, with all other variables remaining constant would be as follows:

	2016 $	2015 $
Change in profit/(loss)		
Increase in interest rate by 1%	3,620	3,140
Decrease in interest rate by 1%	(3,620)	(3,140)
Change in equity		
Increase in interest rate by 1%	3,620	3,140
Decrease in interest rate by 1%	(3,620)	(3,140)

Directors' declaration

Murrumbeena Community Financial Services Limited
ABN 47 104 667 361
Directors' Declaration

In accordance with a resolution of the directors of Murrumbeena Community Financial Services Limited, we state

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 2016 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.

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

Dennis Keith Tarrant, Chairman

Signed on the 26th of September 2016.

Independant audit report

Partners in success

Chartered Accountants

Independent auditor's report to the members of Murrumbeena Community Financial Services Ltd

Report on the financial report

We have audited the accompanying financial report of Murrumbeena Community Financial Services Ltd, which comprises the balance sheet as at 30 June 2016, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making fair accounting estimates that are reasonable in the circumstances. In note 1, the directors also state in accordance with Accounting Standard AASB 101 Presentation of Financial Statements that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the company's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

P: (03) 5443 0344 | F: (03) 5443 5304 | 61-65 Bull St./PO Box 454 Bendigo Vic. 3552 | afs@afsbendigo.com.au | www.afsbendigo.com.au

TAXATION - AUDIT - BUSINESS SERVICES - FINANCIAL PLANNING

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written auditor's independence declaration, a copy of which is included in the directors' report.

Auditor's opinion on the financial report

In our opinion:

1. The financial report of Murrumbeena Community Financial Services Ltd is in accordance with the *Corporations Act 2001* including giving a true and fair view of the company's financial position as at 30 June 2016 and of its financial performance and its cash flows for the year then ended and complying with Australian Accounting Standards and the Corporations Regulations 2001.
2. The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550
Dated: 26 September 2016

David Hutchings
Lead Auditor

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Murrumbeena
Community Bank® Branch
436 Neerim Road, Murrumbeena
VIC 3163

Phone: (03) 9568 8166
Fax: (03) 9568 7894

Franchisee:

Murrumbeena Community Financial
Services Limited
436 Neerim Road, Murrumbeena
VIC 3163

Phone: (03) 9568 8166
Fax: (03) 9568 7894

ABN: 47 104 667 361

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