Annual Report 2016

Redlands
Community Financial Services Ltd
ABN: 52 116 190 875

Victoria Point **Community Bank**® Branch

Chairman's report

On behalf of the Board of Directors, it is my pleasure to commend to you our annual report, to provide some background and context, and to briefly summarise the 2015/16 financial year and what we anticipate in the medium future.

The world is still coming to terms with the negative effects of the GFC. There are further disruptions in the world economy such as "Brexit", negative interest rates, the demands on European economies due to the millions of refugees moving in an almost uncontrolled and unpredicted manner. These global disruptions are so deeply entrenched that they affect us here in the Redlands. We are living and leading in an economy that is volatile, uncertain, complex and ambiguous (VUCA).

I deliberately include the word "leading" because despite the significant challenges, our Branch has excelled.

I will first take a moment to reflect on our performance in the 2015/16 financial year, then briefly compare externally. Justine and her team grew the business in excess of the budget and the expectations set by the Board and Bendigo and Adelaide Bank Ltd (BEN). Justine and her team were presented with a trophy specifically designed for them in recognition of their excellence year-on-year over seven years. No, the bar was not set too low. By comparison, a peer top 10 bank outside of the 'Big 4'; with over 300 branches nationally, grew their 'books' or footings by $600 million, an average $2 million per branch. Justine and her team grew our footings by $10 million.

The VUCA disruption requires us to think differently and to make different decisions; and to innovate constantly. Decision making can no longer be linear. The BEN product mix is slowly changing over time and what is changing at a faster pace is how bank services and products are accessed. Some futurists believe that the greatest change now and in the medium terms will be how new and existing customers adapt to and embed ourselves in the digital space. There will be greater change in how customers adapt and their expectations that there will be technological changes and I agree.

One thing that has not changed is customer service. Provision of what the customer needs and not what we think they need is key to keeping us flexible and will challenge us to adapt to their life style and continue to provide the service level excellence we are now known for.

We must be flexible, available, knowledgeable and agile as if we are an 'app' on a mobile phone or other mobile device. This is where Justine and the team differ when compared to their peers. When we reflect on the 800 hours annually that our team are out voluntarily in the community; as well as their time in-branch and in the Customer Service Centre, you can begin to understand that they are indeed ever-present, flexible with their time and through our practice of encouraging them to be involved in any task or opportunity of their choice, they become knowledgeable too.

Justine and the team create a context where engagement with us, and our service is omni-channel and friction-free. It takes a great deal of discipline, determination and dedication to achieve this and I take this opportunity to recognise their commitment.

In July last year, due to the sale of the host business, the Cleveland agency closed. We have come to know that in every challenge there are possibilities and when Robins Accountants approached us to partner with them to invest in the Redlands community as a strong partnership, we took the opportunity to open the very first Customer Service Centre (CSC) in the BEN retail network. In so doing we have better positioned ourselves in the Redlands, and we took the opportunity to write off all of the previous agency and some of the new CSC and more of our Victoria Point Community Bank® Branch as we still made a profit.

This is quite an achievement given the summary provided by BEN Strategy and Performance Manager Mark Lally. Mark said, "The retail business performance for the Bendigo Bank was well below budgeted figures, primarily due to a struggling performance in lending growth, a trend that was evident across Queensland and in the Brisbane region. BEN is sighting continuing pressure on margins and an ever-increasing list of competitors all fighting for market share. Despite this, another good year was had by Victoria Point, culminating in the opening of the unique Customer Service Centre in Cleveland, again breaking new ground."

Justine and her team have been recognised for their excellence in a network of over 310 Community Bank® Branches; For example they:

- Presented and lead the "Building Business" session at this years National Conference;
- Were included in the BEN Annual Report in recognition of our work to establish a Reconciliation Action Plan;
- Were recognised Nationally for the first Indigenous full-time traineeship in the BEN retail network provided to Karisa Rapana;
- Were recognised when BEN presented a trophy for seven years of excellence as reference above;
- Have been invited to join committees and/or Boards to further support investment in our community; and
- Are recognised nationally for their Facebook page; one of only a few that the whole network is referred to in terms of how to use or establish a page relevant to their community.

As shareholders, I hope you are proud of the achievements of Justine and her team. You certainly should be and we invite all shareholders to take every opportunity when with others in the community to reflect on the work of Justine and the team and to socialise that the outcomes are more than money can buy. Shareholders who seek to sell their shares have an obligation to promote and inform those around them of these special outcomes and encourage investment in our Community Bank® company. The prospectus informed us all that we were purchasing shares in a limited market, with limited potential for turnover of shares. I have no doubt that Shareholders should promote the past, current and potential growth of our community investment at any opportunity and especially if there are shares for sale.

Now, on to the more formal company management matters. We reduced our hours by closing Saturdays. Customers 'voted with their feet' and in hindsight, it assisted to facilitate staffing at the Cleveland CSC. There has been a small and seamless change to our team who continue to provide service excellence. Macleay Island agency has grown very well and we recognise the excellent and consistent approach to customer service that Judith and Ross provide.

We reached a significant milestone at the end of the 2015/16 financial year. You will note in the Statement of Changes in Equity that the initial issued Capital is $642,560. This is shares issued $679,310 less cost of equity raising $36,750. This was the initial working capital entrusted to the directors to run the Community Bank® company. The company's total equity as at 30 June 2016 is $532,078. This is made up of assets that are now held as cash, equipment and franchise goodwill etc.

If we add the total amount of money paid back to shareholders by way of dividends over recent years; which amounts to $108,689; to the total equity i.e. $532,078 plus $108,689 = $640,767; you can see we have basically recovered all the original shareholder working capital ($642,560).

You may also note on the balance sheet is an amount of $5,361 for Current Tax Liability. This relatively small amount means we have used up all of our previous years losses by offsetting them against subsequent years profits and will now start paying income tax. This ties in with my point above and as most financial experts will say, if you are paying tax, you are making a profit.

In some respects this justifies the timing of our push into Cleveland. After all, why pay income tax; lose that cash and then subsequently move into Cleveland. Why not leverage that tax by incurring initial losses in establishing Cleveland now so that the tax liability effectively subsidised the move. In closing, on reflection it has been another enormous year. We have pushed boundaries, innovated, established new ground and in so doing, have received fantastic support from BABL in Queensland and Victoria. The Queensland office especially allow us to be 'us' and are very encouraging. Our partnership is strongly based on trust and their support has been more than what the Franchise 'base' calls for. There has been tremendous good faith from State Manager Noel Jessup and Senior Manager Strategy & Performance Mark Lally which we now recognise publicly and express our gratitude.

The 2016/17 financial year will be much like this financial year with one exception. The profit share arrangement over recent years due to various product mixes, the GFC and the volatile economy has been skewed in our favour. What was always meant to be a 50/50 share of profit, some months neared a 60/40 share in our favour. As the volatility continued, the profit share balance began transition to favour BEN, to the point where subsidies were paid to some Community Bank® companies to ensure at least the 50/50 profit share.

How BEN and individual Community Bank® companies share profits has changed beginning 1 July 2017. The overall profit share provisions are now based on what is known as Funds Transfer Pricing (FTP). FTP is based on profit margin and therefore regardless of the dynamics of the market, our share of the margin will be the 50% intended. Once again I recognise and thank BEN for their good will in allowing the profit share payment to sometimes be very much in our favour without any intent to recover anything over 50%. From 1 July 2017, our share of margins will be clinically 50/50. There are some exceptions to that rule. Where the greater work and greater risk is based, a greater margin will be paid. That means if our team routinely do more of the work for products, we will receive a greater margin payment. Where BEN take the greater risk and do the 'lion's share' of the work, the margin will be in their favour. As so it should be.

Overall, however the margin per product is calculated, the margin will not change and our share of the profits will not be subject to the volatility it has in recent years. Moving from profit share to FTP will, for some Community Bank® companies, mean the margin income will be significantly less. Redlands Community Financial Services Limited is negatively affected and again, in good faith, BEN have initiated a 'floor' payment to ensure that as we reshape our business to meet FTP, we will receive a subsidy closely mimicking the profit share arrangement of the past.

We do not expect this to impact our equity significantly; in fact we plan to invest more in our community. We built a budget for the 2016/17 year based solely on FTP and when we added the costs of the Cleveland CSC we forecast only a very small profit. When the floor payment is added we expect to finish clearly in profit. This will not impact on how dividends are calculated and we expect in the on-years, to increase our investment in the community, continue to return dividends to shareholders, expand our footprint on the bayside and keep funds for a 'rainy day'.

There will be a 'lag' with the Cleveland CSC and it may take 12 months or so to establish a strong and consistent income stream from Cleveland footings. Given the excellent referrals from Robins Accountants already presented, we expect the footings to build in advance of our forecast and therefore income from Cleveland alone to improve our profit forecast, all things being equal of course.

Garry White
Chairman

Manager’s report

Another year has come and gone and once again we have done some amazing things this year. However, it is only when we talk to people, not just our customers, do we get a real understanding of how amazing our work has been. The ability to change people’s lives and allow them to change others is the true value of a Community Bank® branch.

People ask what makes us a great team, because they see something different about our branch. I say it is all about feeling. The feeling you get when you walk into our branch, the feeling one gets from working meaningfully with their community, our feelings of support for each other, even when we have dark days.

The commitment and unwavering support you give me is something I will never be able to thank you for. Down deep in my soul I feel humbled and deeply touched to be part of something special. We have all had our own challenges in life and being surrounded by people that just let us be us. It just feels right, that's what makes us a great team.

Our ‘Champions Trophy’ is a public recognition of our achievements and people should be super proud of what they have contributed.

Over 11 years ago I would never have thought I would be here surrounded by people who just let me be me. In 11 years from now I couldn't think of being anywhere else, and that's a good feeling and why I enjoy working with my great team.

Our Business

The first half of the year was tough. There was so much churn. That gave our team a great challenge and as you can see, the team was certainly up for it.

- Lending budget, $2.5 million, achieved $5 million
- Deposit budget, $2.5 million, achieved $3.4 million
- Growth after churn was $6.2 million
- Community sector banking growth was in excess of $3 million
- Total growth was just under $10 million

Some of the high performing areas for the year were;

- Credit Cards
- Personal Loans
- Leasing
- Merchant/EFTPOS
- Lending
- Deposits
- New Business accounts and
- Strong commitment on building new business through networking

People Matter

We know our business is only as good as its people and developing our staff and enabling them to develop their careers is important to us.

Over the last 12 months we have seen two staff members, Karen Woolan and Rebecca Jenkins, leave to progress their careers. It gives me great satisfaction to see our people grow and move into management roles. I know they will succeed in their new roles.

This provided the opportunity to recruit three new staff members. Caitlyn has come to us from Holland Park and she slipped into our family like she has been with us for years, she is a huge asset. Gabbie recently joined us from Capalaba she also has slipped into the Victoria Point way. Bec Watego came to us from the City Branch and has a wealth of experience broadly. I can see Caitlyn, Gabbie and Bec being part of our family for many years.

As you know we have the most amazing, supportive and dedicated staff that go above and beyond daily. Our staff are always planning new ways to support the community and implementing it, on many occasions, before and after work and on weekends like many volunteers in our community. We are truly blessed to have Jane, Karen, Sandra, Karisa, Caitlyn, Gabbie and Bec working with and in our community. I will never be able to thank you enough.

This year we opened the very first Bendigo Bank Customer Service Centre located in Cleveland, within Robins Accountants, it's a new and exciting way to broaden our footprint across the community. With our amazing partners Robins Accountants, we opened in mid-June. I'm sure the success of the Customer Service Center will allow us to grow and serve the Redlands community more.

Being a financially sound and successful business takes more than just staff and customers it takes a dedicated passionate Board. I would like to thank Garry our chairman for his guidance and support and for letting us improve. Garry's unwavering support for our team has been instrumental in our success and with his role on the Community Bank® National Council allows him to share his wisdom much wider.

Huge thanks to Mark Lally for just letting us be us. Mark understands that we know what works for us, and our community. So thank you for that understanding.

I would like to also acknowledge the support and help we have had from many Bendigo Bank staff members, it takes us all to work together to achieve these great results.

While our growth and business success is hugely important to everyone involved, it is our people that are the most important.

People Matter - more than their assets
People Matter - in maximising opportunities
People Matter - as enablers
People Matter - in everything we do

Justine Kennedy
Branch Manager

Staff Report

The 2015/16 financial year was a big year for personal and business growth at the Victoria Point **Community Bank®** Branch. We saw valued staff members, Rebecca and Karen W, receive promotions to nearby branches. Whilst it was sad to see esteemed members of our team go, these promotions were testament to the supportive and empowering environment that our branch fosters. These movements created an opportunity for two Bendigo Bank staff members, Caitlyn and Gabrielle, to transfer in from neighbouring branches with much experience to share and receive **Community Bank®** style!

With the branch expanding, Sandra was promoted in the branch which is a tribute to all her work in growing our business customer base. Karen G only managed to break one bone in her ankle during the 2015/16 financial year thanks to a hole digging husky. Jane was asked and accepted to become a member of the Management Committee for the Redlands Centre for Women. Jane has volunteered at the centre sewing and helping out when needed over the last few years. Karisa has been heavily involved with the Student Banking program over the last 12 months. She helps out at Redland Bay state school alongside our infamous Piggy Mascot.

This year also saw the establishment of a partnership with Robin's Accountants, where we have expanded and opened Australia's first Customer Service Centre in Cleveland, inside their premises. This centre grants us opportunity to further expand our knowledge and put our skills to the test through the new platforms available within the Customer Service Centre. Having only opened in June 2016, great things can be expected from this venture and we look forward to sharing our experiences and success, so watch this space.

It was with great honour we received the 'Branch of the Year Champions' trophy, which rewarded our branch for the achievement of four consecutive years of first place and three of runner up for our 'Branch of the Year' recognition award. Receiving recognition for the goals we strive to collectively achieve is a great honour and inspires us to maintain the high standard of our work.

Our proudest achievement of all is being able to give back countless hours to our community, via the organisations and businesses that bring us together. It is due to our shareholders and Board that this financial year we were able to give back over $55,000 directly to the Redlands community and even more 'in-kind'. Whether providing community EFTPOS facilities at local community events, selling gifts at school stalls or supporting local groups by participating in charity functions, it is the greatest reward to see what our **Community Bank®** model can achieve and the positive effect it has in our surrounding area.

If it weren't for our continuously supportive Board and loving Branch Manager, we wouldn't have achieved half what we have today. They are the ones that help us to strive towards the **Community Bank®** model and to always give back that little bit more. Not a lot of businesses can call their team their family, which is what we are to each other.

As the new financial year rolls in, we're ready for whatever twists and turns and exciting adventures we have ahead of us.

Jane, Karen, Sandra, Caitlyn, Karisa, Gabrielle & Bec

Victoria Point **Community Bank®** Branch staff

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:

Garry Francis White
Chairman
Occupation: Risk Manager
Qualifications, experience and expertise: Garry has been a Director of RCFS for 10 years. He has also been volunteering for 38 years with various community groups and is a foundation Life Member of the Redlands Netball Association after 27 years including holding various executive positions. Garry is experienced in Workplace Health and Safety, Risk Assessment, Risk Management, Governance, Business Continuity, People Management and fairness and diversity. Current Chairman of RCFS Ltd.
Special responsibilities: Audit, HR, Media sub-committee and Business Development.
Interest in shares: 10,003

Arnal Pravikash Chand
Director
Occupation: Law Clerk
Qualifications, experience and expertise: Arnal completed his final year of Law/Commerce (Hon) at the University of Queensland and is currently completing my legal clerkship at a family law firm. Arnal is a community volunteer which includes student tutoring, electoral support and Amnesty International. Present part-time occupation as Pharmacy Assistant.
Special responsibilities: Marketing committee.
Interest in shares: Nil

John James Goodwin
Director
Occupation: Bank manager
Qualifications, experience and expertise: State manager community sector banking, dealing with community groups, NFP and Charities. He is a commercial finance manager and a community relationship manager.
Interest in shares: Nil

Dulise Coral Maxwell
Director
Occupation: Management Consultant
Qualifications, experience and expertise: Dulise's current role of management consultant, executive coach, mentor and facilitator is the product of a range of corporate positions in the for-profit, not-for-profit and government sectors at local, state and national level. Roles have included positions in strategic HR, strategic planning, leadership and business development and management. I have previously served on the board of Ipswich Tourism and the Leadership Consortium.
Special responsibilities: Deputy Chair
Interest in shares: Nil

Christopher Francis Webster
Director
Occupation: Retired
Qualifications, experience and expertise: Christopher worked as a technical officer with Telstra until 1998 (30 years), and also worked as a retail sales assistant for 5 years (1998-2003) and Admin/Bookkeeping part time since 2003. Since 2001 Christopher volunteered with World Vision (2001-2009), Parkinson's Queensland (2006), Boystown (2007-2014), Circle of Men (2010-2011) Vitae (2015-2016). Christopher currently volunteers with the Community Visitors Scheme (aged care) since 2010, Wynnum State School since 2011, Cleveland High School and both started in 2015. Christopher is also a life member of the Capalaba State College Amateur Swimming Club and a life member of Tennis Officials Australia.
Interest in shares: 10,500

Directors *(continued)*
Bill Joe Parkes
Director
Occupation: Accountant
Qualifications, experience and expertise: Preparation and audit of financial statements for public, private companies and not for profit companies, trust and incorporated associations. Pro bono preparation and audit of income tax returns and financial statements for not for profit companies, trust and incorporated associations.
Interest in shares: Nil

Rebecca Joan Fox
Director *(Appointed 28 July 2016)*
Occupation: Training and Business Specialist
Qualifications, experience and expertise: Trains in exceptional leadership and facilitation throughout Outdoor Education, Outdoor Recreation and Industry Campsites. Rebecca has been working with Business Managers, CEOs, Not for Profit Organisations, Companies, Outdoor Educators, Campsite Managers and Outdoor Recreation teams as a Business, Education, Leadership and Team Coach. Rebecca also coaches teenagers and is passionate about building resilience in our youth through adventure, mentoring and coaching mediums.

Interest in shares: Nil

David John McGovern
Director *(Resigned 19 September 2016)*
Occupation: Director - Catholic Mission
Qualifications, experience and expertise: David is a trained journalist and public relations practitioner, and is also a qualified Primary School teacher. David has developed extensive fundraising experience and networking skills, working in the charity/NFP sector. David helps raise the profile of the branch through the distribution of releases to local media and providing content for the social media outlets of the branch.

Special responsibilities: Member Marketing Committee.
Interest in shares: Nil

James Andrew McNamara
Director (Resigned 28 July 2016)
Occupation: Self Employed Consultant
James McNamara has a Bachelor's Degree in Commerce and runs his own boutique consulting firm called The Impact Factory. James's primary focus is leadership and teaching business people how to get others to willingly follow their lead. James is a skilled keynote presenter, group facilitator and coach. He has a keen mind for sales and marketing and often works with business owners to help them build and expand their businesses. James has a keen interest in grass roots community development initiatives and has been involved in a previous charity event to raise food for those in need.
Special responsibilities: 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 Christopher Francis Webster. Christopher was appointed to the position of secretary on 28 May 2015. Refer to above for Chris' qualifications, 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 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 $
	53,085	71,383

	Year ended 30 June 2016	
Dividends	Cents	$
Dividends paid in the year:	3	20,379

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.

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*
Garry Francis White	11	11
Arnal Pravikash Chand	11	6
John James Goodwin	11	4
Dulise Coral Maxwell	11	8
Christopher Francis Webster	11	11
Bill Joe Parkes	11	10
Rebecca Joan Fox *(Appointed 28 July 2016)*	-	-
David John McGovern *(Resigned 19 September 2016)*	8	4
James Andrew McNamara *(Resigned 28 July 2016)*	11	3

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 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 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 6.

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

Garry W

Garry Francis White, Chairman

Partners in success

Chartered Accountants

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

As lead auditor for the audit of Redlands Community Financial Services Limited 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

Redlands Community Financial Services Limited
ABN 52 116 190 875
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 June 2016

	Notes	2016 $	2015 $
Revenue from ordinary activities	4	875,362	825,327
Employee benefits expense		(467,678)	(442,479)
Charitable donations, sponsorship, advertising and promotion		(77,292)	(61,438)
Occupancy and associated costs		(60,516)	(57,902)
Systems costs		(16,514)	(16,486)
Depreciation and amortisation expense	5	(45,304)	(29,295)
Finance costs	5	-	(6)
General administration expenses		(132,813)	(113,991)
Profit before income tax expense		**75,245**	**103,730**
Income tax expense	6	(22,160)	(32,347)
Profit after income tax expense		53,085	71,383
Total comprehensive income for the year		**53,085**	**71,383**
Earnings per share for profit attributable to the ordinary shareholders of the company:		¢	¢
Basic earnings per share	23	7.81	10.51

The accompanying notes form part of these financial statements

Redlands Community Financial Services Limited
ABN 52 116 190 875
Balance Sheet
as at 30 June 2016

	Notes	2016 $	2015 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	476,607	332,036
Trade and other receivables	8	52,290	50,675
Total Current Assets		**528,897**	**382,711**
Non-Current Assets			
Property, plant and equipment	9	175,919	122,614
Intangible assets	10	65,503	6,334
Deferred tax asset	11	6,541	23,340
Total Non-Current Assets		**247,963**	**152,288**
Total Assets		**776,860**	**534,999**
LIABILITIES			
Current Liabilities			
Trade and other payables	12	128,274	17,197
Current tax liabilities	11	5,361	-
Borrowings	13	90,000	-
Provisions	14	14,978	9,302
Total Current Liabilities		**238,613**	**26,499**
Non-Current Liabilities			
Provisions	14	6,169	9,128
Borrowings	13	-	-
Total Non-Current Liabilities		**6,169**	**9,128**
Total Liabilities		**244,782**	**35,627**
Net Assets		**532,078**	**499,372**
Equity			
Issued capital	15	642,560	642,560
Accumulated losses	16	(110,482)	(143,188)
Total Equity		**532,078**	**499,372**

Redlands Community Financial Services Limited
ABN 52 116 190 875
Statement of Changes in Equity
for the year ended 30 June 2016

	Issued capital $	Accumulated losses $	Total equity $
Balance at 1 July 2014	642,560	(187,399)	455,161
Total comprehensive income for the year	-	71,383	71,383
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(27,172)	(27,172)
Balance at 30 June 2015	642,560	(143,188)	499,372
Balance at 1 July 2015	642,560	(143,188)	499,372
Total comprehensive income for the year	-	53,085	53,085
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(20,379)	(20,379)
Balance at 30 June 2016	642,560	(110,482)	532,078

Redlands Community Financial Services Limited
ABN 52 116 190 875
Statement of Cash Flows
for the year ended 30 June 2016

	Notes	2016 $	2015 $
Cash flows from operating activities			
Receipts from customers		952,446	901,966
Payments to suppliers and employees		(806,867)	(781,972)
Interest received		7,768	7,586
Interest paid		-	(6)
Net cash provided by operating activities	17	153,347	127,574
Cash flows from investing activities			
Payments for property, plant and equipment		(6,116)	(17,467)
Payments of intagible assets		(72,281)	-
Net cash used in investing activities		(78,397)	(17,467)
Cash flows from financing activities			
Proceeds from borrowings		90,000	-
Dividends paid		(20,379)	(27,172)
Net cash provided by/(used in) financing activities		69,621	(27,172)
Net increase in cash held		144,571	82,935
Cash and cash equivalents at the beginning of the financial year		332,036	249,101
Cash and cash equivalents at the end of the financial year	7(a)	476,607	332,036

The accompanying notes form part of these financial statements

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.

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

a) Basis of preparation *(continued)*

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
• 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 Victoria Point, Queensland.

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

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

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

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 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 has assessed the impact of funds transfer pricing and believes that it is likely to have a negative impact on the company. The Bendigo and Adelaide Bank will provide a 'floor' payment to ensure the net negative impact is less than 5%. The directors will continue to monitor revenue and business growth to ensure that the business is best placed to maximise the advantages provided by the change.

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.

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

d) Employee entitlements

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

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

e) Cash and cash equivalents

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

f) Trade receivables and payables

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

g) Property, plant and equipment

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

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

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

- leasehold improvements	40	years
- plant and equipment	2.5 - 40	years
- furniture and fittings	4 - 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.

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

k) Financial instruments

Recognition and initial measurement

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

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

Derecognition

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

Classification and subsequent measurement

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

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

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

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

(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.

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

m) Provisions

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

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

n) Contributed equity

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

o) Earnings per share

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

p) Goods and Services Tax

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

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

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.

Note 2. Financial risk management *(continued)*

Risk management is carried out directly by the board of directors. *(continued)*

(iv) Liquidity risk

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

(v) Cash flow and fair value interest rate risk

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

(vi) Capital management

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

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

The distribution limit is the greater of:

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

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

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

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

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.

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	864,135	815,353
	3,636	2,388
Total revenue from operating activities	867,771	817,741
Non-operating activities:		
- interest received	7,591	7,586
Total revenue from non-operating activities	7,591	7,586
Total revenues from ordinary activities	875,362	825,327

Note 5. Expenses

	2016 $	2015 $
Depreciation of non-current assets:		
- plant and equipment	29,934	14,680
- leasehold improvements	730	730
- furniture & fittings	1,528	-
Amortisation of non-current assets:		
- franchise agreement	2,186	2,314
- franchise renewal fee	10,926	11,571
	45,304	29,295
Finance costs:		
- interest paid	-	6
Bad debts	1,987	745
Loss on disposal of asset	12,111	-

Note 6. Income tax expense

	2016 $	2015 $
The components of tax expense comprise:		
- Current tax	5,361	-
- Movement in deferred tax	(1,038)	(1,333)
- Adjustment to deferred tax to reflect change to tax rate in future periods	238	1,228
- Recoupment of prior year tax losses	17,599	32,452
	22,160	32,347

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

	2016 $	2015 $
Operating profit	75,246	103,730
Prima facie tax on profit from ordinary activities at 28.5% (2015: 30%)	21,445	31,119
Add tax effect of:		
- non-deductible expenses	477	-
- timing difference expenses	1,038	1,333
Current year tax	22,960	32,452
Movement in deferred tax	(1,038)	(1,333)
Adjustment to deferred tax to reflect change of tax rate in future periods	238	1,228
	22,160	32,347

Note 7. Cash and cash equivalents

	2016 $	2015 $
Cash at bank and on hand	150,408	70,202
Term deposits	326,199	261,834
	476,607	332,036

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:

	2016 $	2015 $
Cash at bank and on hand	150,408	70,202
Term deposits	326,199	261,834
	476,607	332,036

Note 8. Trade and other receivables

	2016 $	2015 $
Trade receivables	43,250	41,836
Prepayments	7,481	6,928
Other receivables and accruals	1,559	1,911
	52,290	50,675

Note 9. Property, plant and equipment

	2016 $	2015 $
Leasehold improvements		
At cost	29,217	29,217
Less accumulated depreciation	(7,664)	(6,934)
	21,553	22,283
Plant and equipment - Victoria Point		
At cost	110,893	110,893
Less accumulated depreciation	(55,442)	(49,177)
	55,451	61,716
Plant and equipment - Macleay Island		
At cost	12,468	12,468
Less accumulated depreciation	(5,278)	(2,781)
	7,190	9,687
Plant and equipment - Cleveland		
At cost	82,685	20,214
Less accumulated depreciation	(4,580)	(4,049)
	78,105	16,165
Furniture and fittings		
At cost	41,533	39,263
Less accumulated depreciation	(27,913)	(26,500)
	13,620	12,763
Computer Software		
At cost	13,661	13,661
Less accumulated depreciation	(13,661)	(13,661)
	-	-
Total written down amount	175,919	122,614

Movements in carrying amounts:

	2016 $	2015 $
Leasehold improvements		
Carrying amount at beginning	22,283	23,013
Additions	-	-
Disposals	-	-
Less: depreciation expense	(730)	(730)
Carrying amount at end	21,553	22,283
Plant and equipment - Victoria Point		
Carrying amount at beginning	61,716	64,459
Additions	2,671	4,200
Disposals	-	-
Less: depreciation expense	(8,936)	(6,943)
Carrying amount at end	55,451	61,716
Plant and equipment - Macleay Island		
Carrying amount at beginning	9,687	5,394
Additions	-	4,776
Disposals	-	-
Less: depreciation expense	(2,497)	(483)
Carrying amount at end	7,190	9,687

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

Movements in carrying amounts *(continued)*:

	2016 $	2015 $
Plant and equipment - Cleveland		
Carrying amount at beginning	16,165	-
Additions	92,552	20,214
Disposals	(12,111)	-
Less: depreciation expense	(18,501)	(4,049)
Carrying amount at end	78,105	16,165
Furniture and fittings		
Carrying amount at beginning	12,763	27,691
Additions	3,500	(12,613)
Disposals	(1,115)	-
Less: depreciation expense	(1,528)	(2,315)
Carrying amount at end	13,620	12,763
Total written down amount	175,919	122,614

Note 10. Intangible assets

	2016 $	2015 $
Franchise fee		
At cost	37,367	21,570
Less: accumulated amortisation	(22,700)	(20,514)
	14,667	1,056
Renewal processing fee		
At cost	114,337	57,853
Less: accumulated amortisation	(63,501)	(52,575)
	50,836	5,278
Total written down amount	65,503	6,334

Note 11. Tax

Current:

	2016 $	2015 $
Income tax payable	5,361	-

Non-Current:

	2016 $	2015 $
Deferred tax assets		
- accruals	1,154	983
- employee provisions	5,816	5,253
- tax losses carried forward	-	17,599
	6,970	23,835
Deferred tax liability		
- accruals	429	495
	429	495
Net deferred tax asset	6,541	23,340
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	16,799	32,347

Note 12. Trade and other payables

	2016 $	2015 $
Current:		
Trade creditors	8,192	1,326
Other creditors and accruals	102,104	4,874
BAS Payable	17,978	10,997
	128,274	17,197

Note 13. Borrowings

	2016 $	2015 $
Current:		
Bank loans	90,000	-
Non-Current:		
Bank loans	-	-

In June 2016 a bank loan was taken out for $90,000. The bank loan is repayable monthly. Interest is recognised at an average rate of 7.99%. The loan is secured by a fixed and floating charge over the company's assets.

Note 14. Provisions

	2016 $	2015 $
Current:		
Provision for annual leave	8,214	9,302
Provision for long service leave	6,764	-
Current Provisions	14,978	9,302
Non-Current:		
Provision for long service leave	6,169	9,128

Note 15. Contributed equity

	2016 $	2015 $
679,310 ordinary shares fully paid (2015: 679,310)	679,310	679,310
Less: equity raising expenses	(36,750)	(36,750)
	642,560	642,560

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. Contributed equity

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 any of the following applies:

- They control or own 10% or more of the shares in the company (the "10% limit").
- In the opinion of the board they do not have a close connection to the community or communities in which the company predominantly carries on business (the "close connection test").
- Where the person is a shareholder, after the transfer of shares in the company to that person the number of shareholders in the company is (or would be) lower than the base number (the "base number test"). The base number is 266. As at the date of this report, the company had 295 shareholders.

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

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

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

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

Note 16. Accumulated losses	**2016 $**	**2015 $**
Balance at the beginning of the financial year	(143,188)	(187,399)
Net profit from ordinary activities after income tax	53,085	71,383
Dividends paid or provided for	(20,379)	(27,172)
Balance at the end of the financial year	(110,482)	(143,188)

Note 17. Statement of cash flows

	2016 $	2015 $
Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities		
Profit from ordinary activities after income tax	53,085	71,383
Non cash items:		
- depreciation	32,192	15,410
- amortisation	13,112	13,885
- loss on disposal of asset	12,111	-
Changes in assets and liabilities:		
- (increase)/decrease in receivables	(1,615)	(7,547)
- (increase)/decrease in other assets	16,799	32,347
- increase/(decrease) in payables	19,585	(2,340)
- increase/(decrease) in provisions	2,717	4,436
- increase/(decrease) in tax liabilities	5,361	-
Net cash flows provided by operating activities	153,347	127,574

Note 18. Leases

Operating lease commitments
Non-cancellable operating leases contracted for but not capitalised in the financial statements
Payable - minimum lease payments:

	2016 $	2015 $
- not later than 12 months	36,800	17,524
- between 12 months and 5 years	128,800	-
	165,600	17,524

The branch premises lease is a non-cancellable lease with a five-year term. The second renewal of the lease was taken on the 10 December 2015, with no renewal option remaining. Rent is payable monthly in advance and is increased annually by CPI.

Note 19. Auditor's remuneration

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

	2016 $	2015 $
- audit and review services	5,100	5,050
- non audit services	1,755	2,200
- share registry	750	-
	7,605	7,250

Note 20. Director and related party disclosures

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

Garry Francis White
Arnal Pravikash Chand
John James Goodwin
Dulise Coral Maxwell
Christopher Francis Webster
Bill Joe Parkes
Rebecca Joan Fox *(Appointed 28 July 2016)*
David John McGovern *(Resigned 19 September 2016)*
James Andrew McNamara *(Resigned 28 July 2016)*

No director's fees have been paid as the positions are held on a voluntary basis.

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:	2016 $	2015 $
For a three month period, from July to September, David McGovern took leave of absence from the board of directors and provided journalism and PR service to the branch.	1,800	-

Directors Shareholdings	2016	2015
Garry Francis White	10,003	10,003
Arnal Pravikash Chand	-	-
John James Goodwin	-	-
Dulise Coral Maxwell	-	-
Christopher Francis Webster	10,500	10,500
Bill Joe Parkes	-	-
Rebecca Joan Fox *(Appointed 28 July 2016)*	-	-
David John McGovern *(Resigned 19 September 2016)*	-	-
James Andrew McNamara *(Resigned 28 July 2016)*	-	-

There was no movement in directors shareholdings during the year.

Note 21. Dividends paid or provided	2016 $	2015 $
a. Dividends paid during the year		
Current year dividend		
Unfranked (2015:unfranked) dividend - 3 cents (2015: 4 cents) per share	20,379	27,712

Note 22. Key Management Personnel Disclosures

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

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

Note 23. Earnings per share

		2016	2015
(a)	Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	53,085	71,383
		Number	**Number**
(b)	Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	679,310	679,310

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 Victoria Point, Queensland 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	Principal Place of Business
Shop 5/127 Colburn Avenue	Shop 5/127 Colburn Avenue
Victoria Point QLD 4165	Victoria Point QLD 4165

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.

Financial instrument	Floating interest		Fixed interest rate maturing in: 1 year or less		Fixed interest rate maturing in: Over 1 to 5 years		Fixed interest rate maturing in: Over 5 years		Non interest bearing		Weighted average	
	2016 $	2015 $	2016 $	2015 $	2016 $	2015 $	2016 $	2015 $	2016 $	2015 $	2016 %	2015 %
Financial assets												
Cash and cash equivalents	150,408	70,202	326,199	261,834	-	-	-	-	-	-	1.92	2.65
Receivables	-	-	-	-	-	-	-	-	43,250	41,836	N/A	N/A
Financial liabilities												
Interest bearing liabilities	-	-	90,000	-	-	-	-	-	-	-	0.00	0.00
Payables	-	-	-	-	-	-	-	-	8,192	1,326	N/A	N/A

Net Fair Values

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

Credit Risk

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

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

Interest Rate Risk

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

Sensitivity Analysis

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

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		
Increase in interest rate by 1%	3,866	3,320
Decrease in interest rate by 1%	3,866	3,320
Change in equity		
Increase in interest rate by 1%	3,866	3,320
Decrease in interest rate by 1%	3,866	3,320

Redlands Community Financial Services Limited
ABN 52 116 190 875
Directors' Declaration

In accordance with a resolution of the directors of Redlands Community Financial Services Limited, we state that:

In the opinion of the directors:

(a) the financial statements and notes of the company are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's financial position as at 30 June 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.

Garry

Garry Francis White, Chairman

Signed on the 26th of September 2016.

Partners in success

Chartered Accountants

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

Report on the financial report

We have audited the accompanying financial report of Redlands Community Financial Services Limited, 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.

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 Redlands Community Financial Services Limited 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

Victoria Point **Community Bank**® Branch