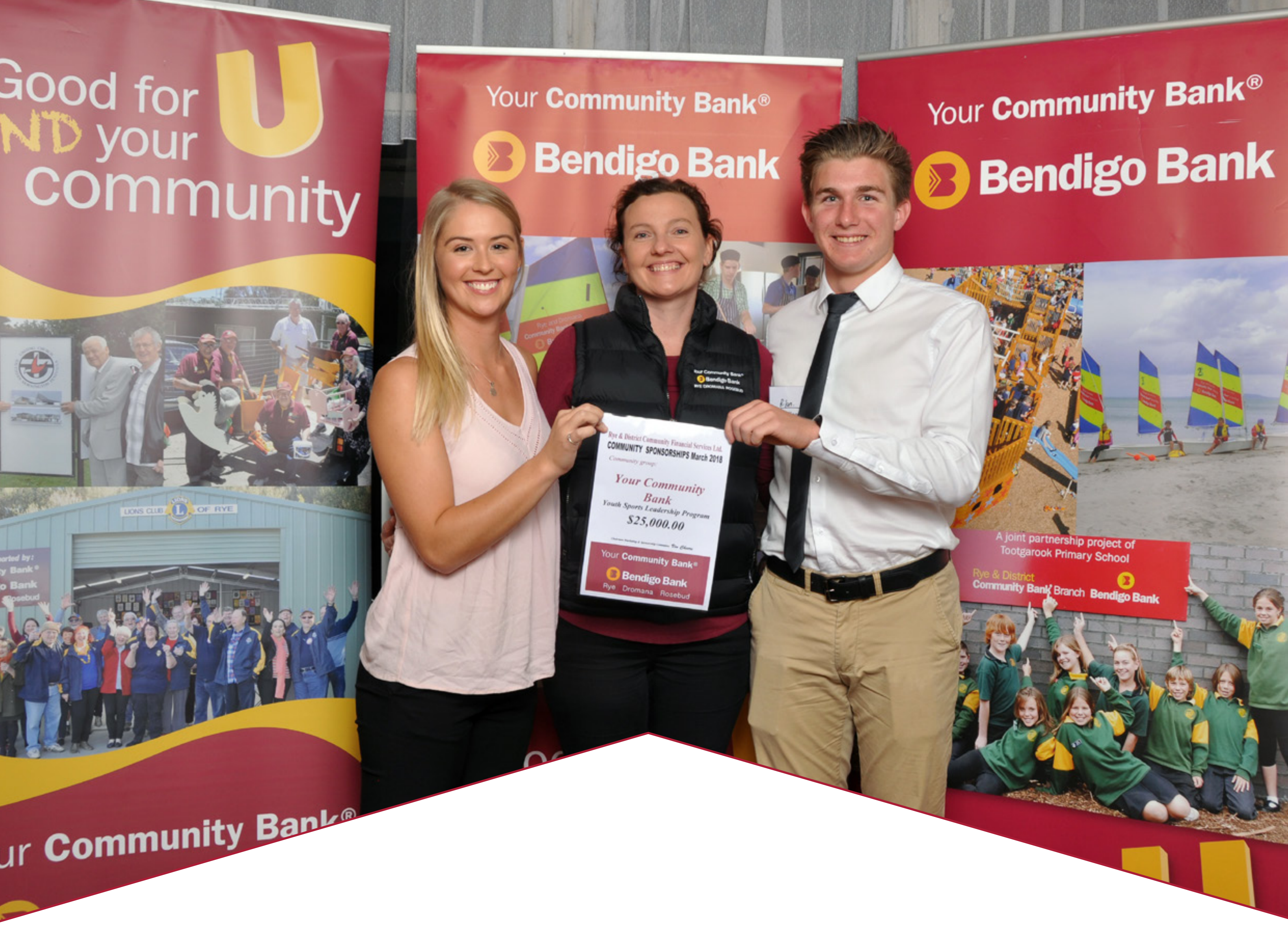


Annual Report 2018

Rye & District Community Financial Services Limited

ABN 67 095 766 895

Rye & District **Community Bank®** Branch
Dromana **Community Bank®** Branch
Rosebud **Community Bank®** Branch

Contents

Chairman's report

For year ending 30 June 2018

I proudly present this report for the financial year ending 30 June 2018, my third as Chair of Rye & District Community Financial Services Limited.

I recently had the pleasure of attending the **Community Bank**® National Conference in Bendigo, which was celebrating the milestone of 20 years since the inaugural **Community Bank**® branches were established. A common theme at the conference was how after two decades, the model is more relevant than ever before.

Australians continue to feel disillusioned and frustrated as the ongoing fallout from the Banking (Hayne) Royal Commission reveals systemic failures and undesirable practices amongst the larger financial institutions, demonstrating a lack of respect and concern for the customer. Many of the younger generation are seeking an authentic connection from the organisations with which they choose to invest or engage – they want to support ethical, socially-minded enterprises who are 'doing good'.

The tenets of looking after our customers and 'doing good' precisely reflect our unique and wonderful model of community banking.

So, in the face of another challenging year in the banking industry, we have continued to focus on the things that matter, and always matter:

- at a branch level – providing excellent and personalised banking service to our customers;
- at a company level – always considering the best interests of our shareholders in every decision made at the board table; and
- at a community level – the ongoing commitment to strengthening our southern Mornington Peninsula region through the provision of our sponsorship and grants program.

None of this would be achieved without the support of our partner, Bendigo and Adelaide Bank. I make particular mention of Simon Sponza and Tania Hansen (our Regional Manager and Regional Community Manager, respectively) who act as conduits between the company, our branches and the bank, giving us guidance and support on a daily basis.

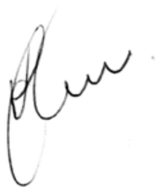
As always, I thank our dynamic Senior Manager, Gary Sanford and his committed team of staff. Gary's passion and determination to make this the strongest group of **Community Bank**® branches in Australia is a key component in this company's ongoing success.

The board was sad to see the resignation of Andrew Emerson in November 2017, after close to 11 years as a director. We sincerely thank him for his service. I commend the current board of directors for their continued and assured steering of this company. Striving to see a better, more connected local community is what fuels the fire of this group of citizens who form your company's board.

On this basis, I am delighted to reveal that the company has returned $849,091 in donations, sponsorships and grants to the region, in this financial year alone. A record amount, and one that we hope to surpass in the future.

Finally, your board has approved a dividend for the year to 7.5 cents per share (fully franked), which will be paid on 23 November 2018.

Once again, I thank you, our shareholders and customers for another year of success. I ask that you continue to spruik the **Community Bank**® message at every opportunity – ours is a great story that needs to be heard.



Vin Cheers
Chairman

Senior Manager's report

For year ending 30 June 2018

The 2018 financial year has seen a tightening of lending policies, and policies and procedures for new accounts opened right across the banking industry. The importance of ensuring any loans approved meet requirements that no customer is being placed at the risk of personal hardship by taking out any new loan. Increased scrutiny on applicants personal living expenses to make sure they could afford new loans and maintain their living standard. Plus, restrictions on interest only lending, has meant the number of loans being written has reduced and each loan application takes longer to write and approve than it did in years past.

I'm pleased to advise that our total deposits across the three branches achieved budget, but our lending saw a reduction in loan balances for the financial year. On the face of it you might assume that the lending reduction was a result of the tightening of lending policies and procedures.

Our lending activity with new loan applications remained like 2017 and our approval amounts were also similar. The resultant drop in loan balances was partially a result of a couple of large business banking customers with large loans paying their loan facilities out during the year. If these amounts were considered, the lending balances across the group would have resulted in a solid lending outcome.

Overall our group remains very active across all three branches and our results were pleasing.

As at 30 June 2018, we experienced good growth in deposits, a decrease in lending and an increase in Financial Planning on a consolidated basis. Our Rye branch increased total accounts from 9,113 to 9,114 (+1), Dromana increased from 5,083 to 5,148 (+65), Rosebud accounts grew from 2,832 to 3,340 (+508), which meant consolidated growth in new accounts of 574, taking the combined total to 17,602.

Our consolidated footings totalled $613.96 million, which included total deposits at $356.87 million and total lending at $243.97 million. This still represents a very strong mix of business. Reported Financial Planning products under management at $13.12 million, assisted to make up the $613.96 million. These balances reflect a 4.43% increase in deposits and a negative 5.81% growth in lending across the company. The balances also reflect a 6.77% increase in Financial Planning products under management over the year.

Rye Branch footings as at 30th June 2018 were $194.24 million in deposits and $100.84 million in lending and Financial Planning under management at $9.69 million. Combined balances stood at $304.77 million.

Dromana branch footings as at 30th June 2018 were $101.79 million in deposits and $95.79 million in lending and Financial Planning under management at $3.15 million. Combined balances stood at $200.73 million.

Rosebud branch footings as at 30th June 2018 were $60.84 million in deposits and $47.34 million in lending and Financial Planning under management at $0.28 million. Combined balances stood at $108.46 million.

The consolidated business growth of $0.93 million against consolidated budgeted growth of $27.07 fell a long way short of budget. Deposits grew by $15.15 million against a budget of $13.12 million, however lending decrease was $15.06 million against a budget of $12.90 million and Financial Planning increased by $0.83 million against a budget of $1.05 million.

The 2017/18 small growth results continued our history of footings growth since we began in 2001 but was our smallest growth so far.

Board support

The board has remained stable in the 2018 financial year with only Andrew Emerson resigning due to moving out of the area. Andrew was one of the original steering committee members in the establishment of the Dromana branch, which opened in 2007. I wish to thank Andrew on assisting with Dromana's established and for his 10-years' service to our company.

I again wish to thank Vin Cheers our Chairman for his support and leadership of our board.

Senior Manager's report continued

For year ending 30 June 2018

Staff

The 2018 financial year was again a year with considerable staff changes, however our Managers have remained relatively stable.

Julie Nolo has enjoyed a full year back at Rye where she is a local identity and a real asset to our company. Julie is not only active in the management of our largest branch she is actively involved in our community with close connections to several local groups. I thank and congratulate Julie on how passionate she is about our **Community Bank**® concept and its success.

Jeff Kimber has worked hard to become known with local community engagements, with two local football clubs, Dromana FNC and Red Hill FNC. Incidentally, as I write this report both teams have just competed in the MPNFL Div 2 Grand Final – with Dromana victorious and 2018 Premiers. Dromana FNC now advance to the MPNFL Div 1 competition next year and join two of our other local community clubs in Sorrento FNC and Rosebud FNC. Jeff has also worked on getting to know many of the local real estate agents and businesses, which we hope will result in new business and referrals in the coming year.

Liz Clark started the financial years as Rosebud Manager but for personal reasons moved to a nine-day fortnight and back to a Customer Relationship Managers role at Rye branch on 4/12/2017. I thank Liz for her time as Rosebud Branch Manager.

With Liz's move back to a CRM at Rye, this created the opportunity to appoint Karen Dimsey as the Rosebud Branch Manager on 4/12/2017. Although Karen had only commenced with us on 6th March 2017 she had already demonstrated that she would be ideally suited to the Branch Manager position. I wish to thank Karen for taking on this role and how she has performed with passion and enthusiasm in her first seven months in the role.

Some of our other staff movements have been:

- Shannon McKeddie commenced as a full time Customer Service Officer (CSO) on 6/7/2017
- Fiona Sanford resigned as a part time CSO effective 30/12/2017
- Kirralee Foehn resigned as a full time CSO effective 2/2/2018
- Hollie Wilkins resigned as a full time CSO effective 4/5/2018
- Alison Will-Pettitt commenced at Rosebud branch as a full time CSO on 12/3/2018
- Carly Cole commenced as a part time CSO at our Rye Branch on 18/6/2018

Gemma Hodgson returned from her maternity leave on 5/2/2018. Gemma commenced two days per week returning to work with Luke Sweet and Mary Hallett upstairs at Dromana in our business operations area.

Tara Delgrosso commenced maternity leave on 18/6/2018 and I am very pleased to advice the safe arrival of their third son, Sunni, who was born on 14/8/2018.

My personal support team consisted of Luke Sweet and Mary Hallett and Gemma, when she returned from maternity leave. I am very grateful for all the support they provide to me and the board every day.

I would like to thank all our new staff and, Christine Gray, Melissa Bosomworth, Elizabeth Cairns, Heather Williams, Renae Dunston, Tara Del Grosso Vanessa Curtis, Judy Blake, Michael Johnson, for their support and commitment to our success.

We have continued to receive strong support from our partners Bendigo and Adelaide Bank primarily through our regional support teams. During the 2017/18 financial year we had the support of Regional Manager, Simon Sponza and I wish to thank him for his ongoing support of our board, managers and me. Through the bank's state support structures for lending and operations, our branches have received ongoing assistance which has been greatly appreciated.

Senior Manager's report continued

For year ending 30 June 2018

Summary

In a very challenging financial year we continued with our high level of community engagements across all three of our branches, which helped encourage new customers to our branches and maintain good lending activity, even if our lending growth figures don't reflect this.

It's pleasing to see our income increase from $3.868 million to $3.987 million, which excludes the "Revaluation increment on investment property" of $170,146. Our charitable donations, sponsorship amounts totalled $849,091, which was an increase from $722,000 in 2017.

Our ability to deposit another $250,000 into the Community Enterprise Foundation, taking its balance as at 30/6/2018 to $693,107 is reflective of the strong position we are in. $250,000 of this is ear marked for the Clover Leaf Project (nearing completion in December 2018), which was detailed in our 2017 Annual Report. I'm pleased to advise that the Board has "in principle" committed $250,000 to the Rosebud Secondary College Wellness Pavilion, which will cost $1.0 million (approximately) and include local and state government funding. Our ability to continue to build this fund and support multimillion-dollar local projects in the future is both rewarding and exciting.

I am also excited with the feedback I have received after the running of the 2017 Your **Community Bank**® Sports Leadership Program, which has highlighted the benefits of the program to not only the "Skippers" (local youth leaders) but also the parents, mentors and clubs involved. The 2018 Your **Community Bank**® Sports Leadership program is currently underway and again the positive feedback is very exciting.

Each year I become more and more convinced that the **Community Bank**® concept is so important to everyone involved or connected in our local community. Even after 17 years since opening our Rye branch we have many in the community that do not fully understand or comprehend the advantages of banking at one of our three branches. We still have a relatively low percentage of the total banking market from our local area. Can you imagine what impact we could have to support and improve our local community if everyone of our shareholders and customers convinced just one new customer to move their banking? It's worth thinking about, our funding to support our community could very quickly double each year.

Since we opened in 2001 we returned more than $9.43 million to our local community in sponsorships, grants and dividends, and in the 2019 financial year we expect to pass a huge milestone of $10 million. I congratulate every stakeholder involved in our company and thank every customer banking with us. These contributions are only possible because you do.

It was both humbling and rewarding the be awarded the 2017 Hall of Fame inductee at last years' **Community Bank**® National Conference. This acknowledges our achievements and success since opening and something of which we should all feel very proud.

We will continue to strive to be the best **Community Bank**® branches in the network, by providing the highest levels of customer service and we remain committed to continuing our increasing engagement with the local community.

Gary Sanford
Senior Manager

Bendigo and Adelaide Bank report

For year ending 30 June 2018

It's been 20 years since the doors to the first **Community Bank**® branch opened. And it has only been a few months since the latest, the 321st, **Community Bank**® branch opened its doors.

In the last 20 years, much has changed. A staggering 92 per cent of our customers do their banking online and we pay for goods and services on a range of mobile phones, our watches and even our fitness devices. Many are embracing this online world with a sense of excitement and confidence. Our model will be even more accessible to people right across Australia.

Despite the change many things have also remained constant through the last two decades. Commitment within communities remains as strong today as it has ever been; from our first **Community Bank**® branch to the most recent one, and the 319 in between.

This year, five of our **Community Bank**® branches are celebrating 20 years in business. Bendigo Bank has celebrated 160 years in business. We farewelled Managing Director Mike Hirst and welcomed into the MD role long-time Bendigo employee Marnie Baker.

Our Be the change online marketing campaign has been the most successful online marketing campaign ever run by our organisation. The premise behind it is simple – it thanks individual customers for banking with their **Community Bank**® branch.

But it's not the bank thanking the customers. It's not the staff, volunteer directors or shareholders thanking the customers. It's the kids from the local little athletics and netball clubs, it's the man whose life was saved by a **Community Bank**® funded defib unit, it's members of the local community choir and the animal rescue shelter. These people whose clubs and organisations have received a share of over $200 million in contributions, all because of people banking with their local **Community Bank**® branch.

Be the change has further highlighted the power of the model. For others, customers are important. For our **Community Bank**® network, customer support ensures our point of difference. It's the reason we can share in the revenue generated by their banking business. Without this point of difference, we would be just another bank.

But we're not, we're Bendigo Bank and we're Australia's only 'community bank', recently named by Roy Morgan Research as Australia's third most trusted brand and most trusted bank. As one of 70,000-plus **Community Bank**® company shareholders across Australia, these are outcomes we hope you too are proud of.

I'd like to thank you for your decision to support your local **Community Bank**® company as a shareholder. Your support has been vitally important to enhancing the prospects and outcomes within your community.

Without you, there would be no **Community Bank**® branch network in Australia.

We value your initial contribution and your ongoing support of your **Community Bank**® branch and your community. Thank you for continuing to play a role in helping your community Be the change.

Robert Musgrove
Bendigo and Adelaide Bank

Directors' report

For year ending 30 June 2018

Your directors submit the financial statements of the company for the financial year ended 30 June 2018.

Directors

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

Vincent de Paul Cheers

Chairman & Director

Occupation: Managing Director

Qualifications, experience and expertise: Owns and operates Vinsbins Pty Ltd. A waste management company on the Mornington Peninsula, employing 50–60 staff.

Special responsibilities: Sponsorship Committee

Interest in shares: 38,500

Stephen Bernard Edmund

Deputy Chairman & Director

Occupation: Real Estate Agent

Qualifications, experience and expertise: Sales and marketing background with 35 years experience operating retail and property management business on the peninsula. Currently working in real estate in the Safety Beach to Rye area. Past President of Rotary Club of Dromana and Paul Harris Fellowship. Past President of Dromana Chamber of Commerce.

Special responsibilities: Deputy Chairman

Interest in shares: 7,200

Anthony Patrick Harford

Treasurer & Director

Occupation: Management Consultant

Qualifications, experience and expertise: 11 years Board Administration Officer for Rye & District Community Financial Services Ltd. Graduate of Company Directors Course, Australian Institute of Company Directors (AICD). Victorian Manager, AICD 2002–2005. Facilitator, AICD Governance Programs 2006– Present. Past Commercial Manager Victoria, Qantas Airways. Past General Manager, Special responsibilities: Treasurer

Interest in shares: Nil

Dorothy Mortlock

Director

Occupation: Retired

Qualifications, experience and expertise: Secretary, Southern Peninsula Community Fund. President, Golf Peninsula Vic, Committee of Handle with Care (local charity working with Indonesia) and past President of Rosebud Country Club.

Special responsibilities: Audit & Governance Committee

Interest in shares: 2,890

Amber Britt Earles

Director

Occupation: PHD Candidate

Qualifications, experience and expertise: BA (Melbourne), Grad. Dip. Ed (Melbourne); Master of International and Community Development (Deakin). Grad. Cert Social Impact (Swinburne). Amber has worked in the field of community development for over a decade and is currently undertaking research into social enterprise governance. She is also a graduate of the Australian Institute of Company Directors.

Special responsibilities: Member of Sponsorship Committee, Chair of Marketing Committee, Chair of Community Impact Plan Working Group

Interest in shares: 2,000

Barry Leonard Irving

Director

Occupation: Retired

Qualifications, experience and expertise: Member of Rotary Club of Rosebud–Rye and past President of Paul Harris Fellow double Sapphire. Secretary of Rotary District 9820 Conference Ride, member of Rye RSL, a laboratory craftsman with CSIRO with 17 years' experience (now retired). Professional photography business in Rye (now retired). Photography and journalism for local community

Directors (continued)

Special responsibilities: Marketing, Promotion and Youth

Interest in shares: : 3,600

Gary Michael Cain

Director

Occupation: Accountant, CPA

Qualifications, experience and expertise: CPA Qualified with 37 years in public practice.

Special responsibilities: Finance Committee

Interest in shares: 5,000

Janet Iris Hall

Director

Occupation: Interior Decorator

Qualifications, experience and expertise: Interior Decorator with 40 years experience, southern Mornington Peninsula Uniting Church – Church Council and a member of Cloverleaf Development Task Force.

Special responsibilities: Audit & Governance and Sponsorship Committee

Interest in shares: 8,800

Stephen De Quetteville Robin

Director

Occupation: Event Manager

Qualifications, experience and expertise: Master's Degree in Public Policy, 35+ years' experience in public relations, sponsorship raising for 20 years, managed events and exhibitions and community and tourism organisation involvement for over 25 years.

Special responsibilities: Marketing Committee

Interest in shares: 1,500

Andrew Ross Emerson

Director (Resigned 15 Nov 2017)

Occupation: Retailer/Interior Design

Qualifications, experience and expertise: Experience in the furnishing industry, a member of Dromana Lions Club and past President of Dromana Primary School Council.

Special responsibilities: Property Maintenance

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 Sarah Marshall. Sarah was appointed to the position of secretary on 1st December 2016. Sarah's qualifications include BA/LLB(Hons) from the University of Melbourne. Sarah has a background in corporate and commercial law in city law firms for eight years. Sarah's special responsibilities include the Sponsorship and Marketing Committees.

Principal activities

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

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

Operating results

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

Year ended 30 June 2018 $	Year ended 30 June 2017 $
346,829	285,355

Operating and financial review

Operations

Rye & District Community Financial Services Limited is a public company listed on the National Stock Exchange (NSX).

The branches of the Bendigo Bank **Community Bank**® operated by the company, offer an extensive range of Bendigo Bank products and derive income in six ways:

- margin income
- fee income
- upfront product commissions
- trailer product commissions
- interest income
- market development fund contributions from BBL.

The rates of fees, margins and commissions are determined by BBL as specified in the Franchise Agreement (and are subject to variation, from time to time). It is the objective of this agreement to share income from eligible products equally between the company and BBL.

As currently stands, the renewal date of all three Franchise Agreements (for each of Rye, Dromana and Rosebud **Community Bank**® branches) will occur on 1 May 2021. Subject to the conditions outlined in the Franchise Agreements, there is an option for the terms of each franchise to be extended by two further five-year terms, taking the holding of the franchise for all three branches to 2031.

The year under review has continued the trend of recent years with ongoing challenging trading conditions, including, chiefly, the Reserve Bank of Australia's sustained record low 1.5 percent cash rate which has remained in place for over two years (since August 2016).

Consolidated funds under management (FUM) were maintained and increased from $613,032,230 as at 30 June 2017 to $613,958,423 as at 30 June 2018 – a small move upwards of 0.15% for the year. Although on paper this translates as a slim increase, it was a year that involved several customers paying off significant business loans well ahead of their maturity date and does not fully paint the picture of robust business activity across all three branches.

Deposits made up 58% of the total book value and sat at $356,871,918 as at 30 June 2018, a steady growth of 4.43% (over the 2017 result) and a staggering 115.45% over budgeted growth expectations.

Operations (continued)

Loan growth was down 5.75% on the previous financial year ($238,650,198 of FUM at 30 June 2018 compared to $253,318,544 as at 30 June 2017) however the trend appeared to indicate that the size and value of many new loans was higher than average. It was also pleasing to see a 6.77% growth in financial planning business (or 79.32% against budgeted growth), reaching a total value of $13.120.705 by 30 June 2018.

The company continues to proudly support over 150 community organisations by way of donations, sponsorship and grants, which this year totalled an impressive $849,091. This brings total donations to the southern Mornington Peninsula community since inception of the company, to an amount in excess of $7.1 million.

The strength of the company continues to lie in the staff it employs, the customer service it offers and the relationship with the communities in which it operates.

Financial

The Company's revenue at $3,979,373 showed a jump of $110,530 over the 2017 result ($3,868,843}, an increase of approximately 2.77%. This growth demonstrates a truly positive outcome given the wider economic climate.

The company also returned a significant profit (after tax) of $346,829 (2017: $285,355), however this large increase can be attributed to the accounting treatment of the re-evaluation of the Rosebud Unit 2 property as income.

The after-tax profit performance of the company over the last five years, is shown in the table below:

	2018 $	2017 $	2016 $	2015 $	2014 $
After-tax profit/(loss)	346,829	285,355	188,284	(152,904)	309,196

The company's balance sheet remains healthy, recording a total equity of $4,289,609 compared to last year's figure of $3,531,249, however, this increase is largely due to a revaluation of all company-owned properties. Shareholder contributed equity remained at $1,340,732.

Retained earnings stands at $1,683,694 (2017: $1,542,077).

Despite the slowed growth and continued squeeze on margin, directors are pleased to be able to declare a dividend for the 2018 year of 7.5 cents per share, fully franked.

Business strategies

We continue to see benefits under the Bendigo Bank Funds Transfer Pricing revenue share model, which came into effect two years ago.

Our focus remains in the building of strong relationships with many groups within the community in which we operate, particularly through our incredibly successful sponsorship and grants program. A more strategic focus on investment into our local region will be taking place over the next 12–24 months.

At the direction of our partner, Bendigo Bank, our company will focus on staff professional development to ensure that it can meet all of the financial requirements of our customers, including the provision of insurance services, wealth protection products and financial planning. Staff development is also vital to ensure that appropriate succession capability is in place.

The company continues to work on strategies to secure and increase its place in the market through the engagement of a dedicated marketing consultant. We seek to attract new customers to our network whilst strengthening the relationship with existing customers and shareholders.

Prospects for future financial years

In broad industry terms, the ongoing impact of the Hayne Royal Commission is yet to be fully realised, but will continue to cast a degree of uncertainty over the banking and finance sector for some time to come.

The board expects the current low interest rate environment to continue, given the RBA's reluctance to alter the cash rate. It is likely that increased revenue will only be achieved on the back of increased deposit and lending business.

Your board and Bendigo Bank have approved budgets for 2018-19 year which, when achieved, are expected to deliver a profitable outcome, demonstrating continued and strengthened growth.

It is believed that there are still growth opportunities in lending within our catchment area and that these opportunities will fuel future growth. Whilst not ignoring home or consumer lending, it is business lending that will continue to attract most management focus during the coming year.

Remuneration report

Remuneration policy

The remuneration policy of Rye & District Community Financial Services Limited has been designed to align to key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the company's financial results. The board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the company, as well as create goal congruence between directors, executives and shareholders.

Key management personnel remuneration policy

Key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation and performance incentives.

The performance of key management personnel is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the company's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the board's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance results leading to long-term growth in shareholders' wealth.

Key management personnel also receive a superannuation guarantee contribution required by the government, which is currently 9.5%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

The contracts for service between the company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future. Upon retirement key management personnel are paid employee benefit entitlements accrued to date of retirement.

Employment agreements were entered into with key management personnel.

Remuneration Structure

All directors are independent non-executive directors and are paid directors' fees as disclosed below.

Non-executive director remuneration policy

The board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The board determines payments to the non-executive directors and regularly reviews the amount of fees paid, based on market practices, duties and accountability.

The maximum aggregate amount of fees that can be paid to non-executive directors requires approval by shareholders as required by the *Corporations Act 2001* and NSX listing rules.

Fees for non-executive directors are not linked to the performance of the company.

Performance based remuneration

The key performance indicators (KPIs) are set annually, with a certain level of consultation with key management personnel to ensure buy-in. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the board believes hold greater potential for expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the company and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the board in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Company's goals and shareholder wealth, before the KPIs are set for the following year.

The company does not pay performance based remuneration to any director.

Relationship between remuneration policy and company performance

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. Performance based bonus is based on the achievement of KPIs as disclosed above.

The Senior Manager is paid a base salary between $160,000–$170,000 plus the use of a company car. In addition the Senior Manager received a bonus in the 2017/2018 financial year of $12,500 in relation to performance in the 2016/2017 financial year as approved by the board. In the 2017/2018 financial year the Senior Manager has opted to work a nine-day fortnight in lieu of any bonus.

Company performance, shareholder wealth and director's and executives' remuneration

The following table shows the gross revenue, profits and dividends for the last six years of the entity, as well as the share price at the end of the respective financial years. Analysis of the actual figures shows excellent growth in revenue, increased payments to community groups and projects as well as consistent returns to shareholders. The company share price at the end of the 2017/2018 financial year is a reflection of the company performance and growth, as well as recognition of the strengthening of the company's balance sheet. The board is of the opinion that these results can be attributed, in part, to the previously described remuneration policy and is satisfied with the overall trend in shareholder wealth over the past five years.

	2018 $	**2017 $**	**2016 $**	**2015 $**	**2014 $**	**2013 $**
Revenue	3,979,373	3,868,843	3,571,717	3,522,478	3,402,658	3,486,168
Net Profit/(Loss)	346,829	285,355	188,284	(152,904)	309,196	610,389
Share price at year end	1	1.18	1	1.15	1.15	1.05
Dividend paid per share	7.5c	7.0c	6.25c	6.0c	6.0c	7.75c
Gross dividend	219,870	205,212	183,224	175,896	175,896	227,199

Company performance, shareholder wealth and director's and executives' remuneration (continued)

For the year ended 30 June 2018 the directors received total remuneration including superannuation, as follows:

	$
Vincent de Paul Cheers	20,000
Stephen Bernard Edmund	7,500
Anthony Patrick Harford	15,000
Dorothy Mortlock	7,500
Amber Britt Earles	7,500
Barry Leonard Irving	7,500
Gary Michael Cain	7,500
Janet Iris Hall	7,500
Stephen Robin	7,500
Andrew Ross Emerson*	1,875
	89,375

* Resigned 15/11/17

Fees and payments to non executive directors reflect the demands which are made on them and the responsibilities of the directors. Non executive directors' fees are reviewed annually by the board. The Chairman's, Secretary's and Treasurer's fees are determined independently to the fees of non executive directors. All directors' remunerations are inclusive of committee fees.

Options issued as part of remuneration for the year ended 30 June 2018

No options have been issued as part of remuneration for the year ended 30 June 2018.

Employment contracts for directors

There are no employment contracts for directors.

Directors' shareholdings

	Balance at start of the year	Changes during the year	Balance at end of the year
Vincent de Paul Cheers	28,000	10,500	38,500
Stephen Bernard Edmund	7,200	–	7,200
Anthony Patrick Harford	–	–	–
Dorothy Mortlock	2,890	–	2,890
Amber Britt Earles	2,000	–	2,000
Barry Leonard Irving	3,600	–	3,600
Gary Michael Cain	5,000	–	5,000
Janet Iris Hall	8,800	–	8,800
Stephen Robin	–	1,500	1,500
Andrew Ross Emerson*	4,000	4,000	–

* Resigned 15/11/17

Dividends

	Year ended 30 June 2018	
	Cents	$
Final dividends recommended	7.5	219,870
Dividends paid in the year: As recommended in the prior year report	7	205,212

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.

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:

	Directors' meetings	
	Eligible	Attended
Vincent de Paul Cheers	13	10
Stephen Bernard Edmund	13	12
Anthony Patrick Harford	13	11
Dorothy Mortlock	13	11
Amber Britt Earles	13	12
Barry Leonard Irving	13	10
Gary Michael Cain	13	11
Janet Iris Hall	13	13
Stephen Robin	13	13
Andrew Ross Emerson*	5	4

* Resigned 15/11/17

	Committee meetings							
	Finance		Marketing		Sponsorship		Audit & Governance	
	A	B	A	B	A	B	A	B
Vincent de Paul Cheers	1	1	–	–	3	1	–	–
Stephen Bernard Edmund	–	–	–	–	–	–	–	–
Anthony Patrick Harford	1	1	5	3	3	2	–	–
Dorothy Mortlock	–	–	–	–	–	–	4	4
Amber Britt Earles	–	–	5	5	3	3	–	–
Barry Leonard Irving	–	–	5	1	3	2	–	–
Gary Michael Cain	1	1	–	–	–	–	–	–
Janet Iris Hall	–	–	–	–	3	1	4	4
Stephen Robin	–	–	5	5	–	–	–	–
Andrew Ross Emerson*	–	–	–	–	–	–	–	–

A – eligible to attend, B – number attended

* Resigned 15/11/17

Directors' report (continued)

Proceedings on behalf of the company

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

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

Non audit services

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

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

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

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

Auditor's Independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 16.

Signed in accordance with a resolution of the board of directors at Dromana, Victoria on 25th September 2018.

Vin Cheers
Chairman

Auditor's independence declaration

Partners in success

Chartered Accountants

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

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

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

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

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

Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550
Dated: 25 September 2018

Graeme Stewart
Lead Auditor

Taxation | Audit | Business Services

Financial statements

Statement of Profit or Loss and Other Comprehensive Income
For year ending 30 June 2018

	Notes	2018 $	2017 $
Revenue from ordinary activities	4	3,979,373	3,868,843
Revaluation increment on investment property	4	170,146	–
Loss on sale of non current assets		(8,445)	(1,519)
Employee benefits expense		(1,980,293)	(1,860,496)
Charitable donations, sponsorship, advertising and promotion		(912,471)	(791,004)
Occupancy and associated costs		(131,149)	(128,070)
Systems costs		(190,299)	(199,807)
Depreciation and amortisation expense	5	(143,597)	(150,624)
Finance costs	5	(59,690)	(73,993)
General administration expenses		(232,789)	(234,578)
Profit before income tax expense		**490,786**	**428,752**
Income tax expense	6	(143,957)	(143,397)
Profit after income tax expense		**346,829**	**285,355**
Total comprehensive income for the year attributable to the ordinary shareholders of the company		**346,829**	**285,355**

Earnings per share		**¢**	**¢**
Basic earnings per share	25	11.83	9.73

The accompanying notes form part of these financial statements.

Balance Sheet
As at 30 June 2018

	Notes	2018 $	2017 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	140,769	144,981
Trade and other receivables	8	348,507	365,972
Total Current Assets		**489,276**	**510,953**
Non-Current Assets			
Property, plant and equipment	9	4,496,433	3,951,166
Investment property	10	971,321	816,236
Intangible assets	11	114,174	115,916
Deferred tax asset	12	147,657	187,418
Total Non-Current Assets		**5,729,585**	**5,070,736**
Total Assets		**6,218,861**	**5,581,689**
LIABILITIES			
Current Liabilities			
Trade and other payables	13	131,332	146,819
Current tax liabilities	12	17,518	53,466
Borrowings	14	226,854	236,693
Provisions	15	175,531	147,037
Total Current Liabilities		**551,235**	**584,015**
Non-Current Liabilities			
Borrowings	14	1,326,393	1,418,134
Provisions	15	51,624	58,291
Total Non-Current Liabilities		**1,378,017**	**1,476,425**
Total Liabilities		**1,929,252**	**2,060,440**
Net Assets		**4,289,609**	**3,521,249**
Equity			
Issued capital	16	1,299,400	1,299,400
Reserves	17	1,306,515	679,772
Retained earnings	18	1,683,694	1,542,077
Total Equity		**4,289,609**	**3,521,249**

The accompanying notes form part of these financial statements.

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

	Notes	Issued Capital $	Reserves $	Retained earnings $	Total Equity $
Balance at 1 July 2016		**1,299,400**	**679,772**	**1,439,946**	**3,419,118**
Total comprehensive income for the year		–	–	285,355	285,355
Transactions with owners in their capacity as owners:					
Shares issued during period		–	–	–	–
Costs of issuing shares		–	–	–	–
Dividends provided for or paid	24	–	–	(183,224)	(183,224)
Balance at 30 June 2017		**1,299,400**	**679,772**	**1,542,077**	**3,521,249**
Balance at 1 July 2017		1,299,400	679,772	1,542,077	3,521,249
Total comprehensive income for the year		–	–	346,829	346,829
Transactions with owners in their capacity as owners:					
Revaluation increment on land and buildings		–	626,743	–	626,743
Shares issued during period		–	–	–	–
Costs of issuing shares		–	–	–	–
Dividends provided for or paid	24	–	–	205,212	205,212
Balance at 30 June 2018		**1,299,400**	**1,306,515**	**1,683,694**	**4,289,609**

The accompanying notes form part of these financial statements.

Statement of Cash Flows
for the year ended 30 June 2018

	Notes	2018 $	2017 $
Cash flows from operating activities			
Receipts from customers		4,002,472	3,803,427
Payments to suppliers and employees		(3,438,725)	(3,152,613)
Interest received		263	1,463
Interest paid		(59,690)	(73,993)
Income taxes paid		(140,143)	(121,752)
Net cash provided by/(used in) operating activities	19	**364,177**	**456,532**
Cash flows from investing activities			
Payments for property, plant and equipment		(10,943)	(7,496)
Payments for office furniture and equipment		(10,189)	(3,269)
Payments for intangible assets		(40,464)	(67,781)
Net cash used in investing activities		**(61,596)**	**(78,546)**
Cash flows from financing activities			
Proceeds from borrowings		–	460,000
Repayment of borrowings		(101,581)	(760,316)
Dividends paid	24	(205,212)	(183,224)
Net cash used in financing activities		**(306,793)**	**(483,540)**
Net decrease in cash held		**(4,212)**	**(105,554)**
Cash and cash equivalents at the beginning of the financial year		144,981	250,535
Cash and cash equivalents at the end of the financial year	7(a)	**140,769**	**144,981**

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ending 30 June 2018

Note 1. Summary of significant accounting policies

a) Basis of preparation

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

Compliance with IFRS

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

Critical accounting estimates

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

Historical cost convention

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

Comparative figures

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

Application of new and amended accounting standards

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

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

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

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

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

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

Note 1. Summary of significant accounting policies (continued)

a) Basis of preparation

Application of new and amended accounting standards (continued)

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

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

Economic dependency – Bendigo and Adelaide Bank Limited

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank**® branches at Rye, Dromana and Rosebud.

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

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

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

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

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

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

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

Note 1. Summary of significant accounting policies (continued)

b) Revenue

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

Revenue calculation

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

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

Core banking products

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

Margin

Margin is arrived at through the following calculation:

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

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

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

Commission

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

Fee income

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

Discretionary financial contributions

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

Note 1. Summary of significant accounting policies (continued)

b) Revenue (continued)

Discretionary financial contributions (continued)

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

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

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

Ability to change financial return

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

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

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

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

Monitoring and changing financial return

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

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

c) Income tax

Current tax

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

Note 1. Summary of significant accounting policies (continued)

c) Income tax (continued)

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

d) Employee entitlements

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

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

e) Cash and cash equivalents

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

f) Trade receivables and payables

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

Note 1. Summary of significant accounting policies (continued)

g) Property, plant and equipment

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

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

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

- leasehold improvements 5–15 years
- plant and equipment 2.5–40 years
- 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.

k) Financial instruments

Recognition and initial measurement

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

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

Derecognition

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

Note 1. Summary of significant accounting policies (continued)

k) Financial instruments (continued)

Classification and subsequent measurement

i) Loans and receivables

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

(ii) Financial liabilities

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

Impairment

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

l) Leases

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

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

m) Provisions

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

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

n) Issued capital

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

o) Earnings per share

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

Note 1. Summary of significant accounting policies (continued)

p) Goods and Services Tax

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

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

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

Note 2. Financial risk management

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

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

(i) Market risk

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

(ii) Price risk

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

(iii) Credit risk

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

(iv) Liquidity risk

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

(v) Cash flow and fair value interest rate risk

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

(vi) Capital management

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

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

Note 2. Financial risk management (continued)

The distribution limit is the greater of:

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

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

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

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

Note 3. Critical accounting estimates and judgements

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

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

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

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.

Note 3. Critical accounting estimates and judgements (continued)

Impairment of assets

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

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

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

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

Fair value measurement

Some of the company's assets and liabilities are measured at fair value for financial reporting purposes. The board of directors determine the appropriate valuation techniques and inputs for fair value measurements.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs are unobservable inputs for the asset or liability.

In estimating the fair value of an asset or a liability, the company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the company engages third party qualified valuers to perform the valuation.

	2018 $	2017 $

Note 4. Revenue from ordinary activities

Operating activities:		
– gross margin	3,224,722	2,974,422
– services commissions	370,804	434,562
– fee income	294,031	359,833
– market development fund	45,000	50,833
Total revenue from operating activities	**3,934,557**	**3,819,650**
Non-operating activities:		
– interest received	263	1,463
– rental revenue	44,553	43,636
– revaluation increment on investment property	170,146	–
– other revenue	–	4,094
Total revenue from non-operating activities	**214,962**	**49,193**
Total revenues from ordinary activities	**4,149,519**	**3,868,843**

Note 5. Expenses

Depreciation of non-current assets:		
– land and buildings	57,053	62,157
– investment property	15,062	15,795
– motor vehicles	6,806	13,964
– office furniture and equipment	15,041	6,295
– leasehold improvements	7,430	8,776
Amortisation of non-current assets:		
– franchise agreement	6,688	6,518
– franchise renewal fee	21,517	20,334
– in house software	–	2,785
– establishment fee	14,000	14,000
Finance costs:		
– interest paid	59,690	73,993
Bad debts	**1,833**	**2,096**
Loss on sale of non current assets	**8,445**	**1,519**

	2018 $	2017 $

Note 6. Income tax expense

The components of tax expense comprise:		
– Current tax	104,195	131,678
– Movement in deferred tax	39,762	11,719
	143,957	**143,397**
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:		
Operating profit before tax	490,786	428,752
Prima facie tax on profit from ordinary activities at 27.5% (2016: 27.5%)	134,966	117,907
Add tax effect of:		
– non-deductible expenses	6,252	6,597
– timing difference expenses	7,029	4,898
– other deductible expenses	(44,052)	2,276
	104,195	**131,678**
Movement in deferred tax	39,762	11,719
	143,957	**143,397**

Note 7. Cash and cash equivalents

Cash at bank and on hand	140,769	144,981
	140,769	**144,981**

Note 7.(a) Reconciliation to cash flow statement

The above figures reconcile to the amount of cash shown in the Statement of Cash Flows at the end of the financial year as follows:

Cash at bank and on hand	140,769	144,981
	140,769	**144,981**

Note 8. Trade and other receivables

Trade receivables	315,237	323,538
Prepayments	33,270	42,434
	348,507	**365,972**

Note 9. Property, plant and equipment

	2018 $	2017 $
Land and buildings		
At cost	4,400,000	3,940,001
Less accumulated depreciation	(13,201)	(128,489)
	4,386,799	**3,811,512**
Leasehold improvements		
At cost	134,473	135,973
Less accumulated depreciation	(79,641)	(72,774)
	54,832	**63,199**
Office furniture and equipment		
At cost	112,369	97,598
Less accumulated depreciation	(75,480)	(60,760)
	36,889	**36,838**
Motor vehicles		
At cost	65,744	97,393
Less accumulated depreciation	(47,831)	(57,776)
	17,913	**39,617**
Total written down amount	**4,496,433**	**3,951,166**
Movements in carrying amounts:		
Land and buildings		
Carrying amount at beginning	3,811,512	3,873,669
Transfer from leashold improvements	2,425	–
Transfer from office furniture and equipment	4,554	–
Revaluation of assets	626,743	–
Additions	–	–
Disposals	(1,382)	–
Less: depreciation expense	(57,053)	(62,157)
Carrying amount at end	**4,386,799**	**3,811,512**
Leasehold Improvements		
Carrying amount at beginning	63,199	71,975
Additions	1,488	–
Disposals	–	–
Transfer to land and buildings	(2,425)	–
Less: depreciation expense	(7,430)	(8,776)
Carrying amount at end	**54,832**	**63,199**

	2018 $	2017 $
Office furniture and equipment		
Carrying amount at beginning	36,838	32,368
Additions	19,646	10,765
Disposals	–	–
Transfer to land and buildings	(4,554)	–
Less: depreciation expense	(15,041)	(6,295)
Carrying amount at end	**36,889**	**36,838**
Motor vehicles		
Carrying amount at beginning	39,617	66,009
Additions	–	–
Disposals	(14,898)	(12,428)
Less: depreciation expense	(6,806)	(13,964)
Carrying amount at end	**17,913**	**39,617**
Total written down amount	**4,496,433**	**3,951,166**

Note 10. Investment property

Land and buildings		
At cost	975,000	850,000
Less accumulated depreciation	(3,679)	(33,764)
	971,321	**816,236**
Movements in carrying amounts:		
Land and buildings		
Carrying amount at beginning	816,236	832,031
Revaluation of assets	170,147	–
Additions	–	–
Disposals	–	–
Less: depreciation expense	(15,062)	(15,795)
Carrying amount at end	**971,321**	**816,236**

	2018 $	2017 $

Note 11. Intangible assets

Franchise fee		
At cost	167,222	162,164
Less: accumulated amortisation	(148,950)	(142,262)
	18,272	**19,902**
Establishment fee		
At cost	70,000	70,000
Less: accumulated amortisation	(65,934)	(51,934)
	4,066	**18,066**
Renewal processing fee		
At cost	234,930	199,524
Less: accumulated amortisation	(143,094)	(121,576)
	91,836	**77,948**
Total written down amount	**114,174**	**115,916**

Note 12. Tax

Current:		
Income tax payable	17,518	53,466
Non-Current:		
Deferred tax assets		
– employee provisions	62,468	57,426
– accrued expenses	852	–
– capital loss carried forward	135,110	135,110
	198 430	**192 536**
Deferred tax liability		
– deductible prepayments	3,983	5,118
– revaluation surplus	46,790	–
	50,773	**5,118**
Net deferred tax asset	**147,657**	**187,418**
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	**39,761**	**11,720**

	Note	2018 $	2017 $

Note 13. Trade and other payables

Current:			
Trade creditors		21,429	22,890
Other creditors and accruals		109,903	123,929
		131,332	**146,819**

Note 14. Borrowings

Current:			
Chattel mortgage	21	–	9,326
Bank loans		226,854	227,367
		226,854	**236,693**
Non-current:			
Bank loans		1,326,393	1,418,134
		1,326,393	**1,418,134**

Bank loans are repayable monthly. Interest is recognised at an average rate of 5.47% (2017: 5.08%). The loans are secured by a fixed and floating charge over the company's assets.

Note 15. Provisions

Current:			
Provision for annual leave		71,159	52,080
Provision for long service leave		104,372	94,957
		175,531	**147,037**
Non-Current:			
Provision for long service leave		**51,624**	**58,291**

	2018 $	2017 $

Note 16. Issued capital

	2018 $	2017 $
2,931,605 ordinary shares fully paid (2017: 2,931,605)	1,340,732	1,340,732
Less: equity raising expenses	(41,332)	(41,332)
	1,299,400	**1,299,400**

Rights attached to shares

(a) Voting rights

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

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

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

(b) Dividends

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

(c) Transfer

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

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

Prohibited shareholding interest

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

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

- They control or own 10% or more of the shares in the company (the "10% limit").
- In the opinion of the board they do not have a close connection to the community or communities in which the company predominantly carries on business (the "close connection test").
- Where the person is a shareholder, after the transfer of shares in the company to that person the number of shareholders in the company is (or would be) lower than the base number (the "base number test"). The base number is 270. As at the date of this report, the company had 488 shareholders.

Note 16. Issued capital (continued)

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

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

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

The National Stock Exchange (NSX) has advised that in its view the prohibited shareholding provisions are appropriate and equitable but the 'base number test' is not, as a result the base number clause does not operate whilst the company remains listed on the NSX.

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

	2018 $	2017 $

Note 17. Reserves

Asset Revaluation Reserve	**1,306,515**	**679,772**

Note 18. Retained earnings

Balance at the beginning of the financial year	1,542,077	1,439,946
Net profit from ordinary activities after income tax	346,829	285,355
Dividends provided for or paid	(205,212)	(183,224)
	1,683,694	**1,542,077**

Note 19. Statement of cash flows

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

	2018 $	2017 $
Profit from ordinary activities after income tax	346,829	285,355
Non cash items:		
– depreciation	101,392	106,987
– amortisation	42,205	43,637
– revaluation of assets	(170,146)	–
– loss on sale of assets	8,445	1,519
Changes in assets and liabilities:		
– (increase)/decrease in receivables	17,465	(63,953)
– increase/(decrease) in other assets	39,761	21,645
– increase/(decrease) in payables	37,458	1,061
– increase/(decrease) in provisions	21,827	11,178
– increase/(decrease) in current tax liabilities	(81,059)	49,103
Net cash flows provided by operating activities	**364,177**	**456,532**

Note 20. Fair value measurement

This section explains the judgements and estimates made in determining the fair values of the company's assets that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the applicable assets have been classified into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

At 30 June 2018	Level 1 $	Level 2 $	Level 3 $	Level 4 $
Recurring fair value measurements:				
Investment property	–	975,000	–	975,000
Freehold land and buildings	–	4,400,000	–	4,400,000
Total assets at fair value	–	**5,375,000**	–	**5,375,000**
At 30 June 2017	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Level 4 $**
Recurring fair value measurements:				
Investment property	–	850,000	–	850,000
Freehold land and buildings	–	3,940,000	–	3,940,000
Total assets at fair value	–	**4,790,000**	–	**4,790,000**

There were no transfers between Level 1 and Level 2 during the reporting period. The company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

	2018 $	2017 $

Note 21. Leases

Finance lease commitments		
Payable – minimum lease payments:		
– not later than 12 months	–	9,486
Minimum lease payments	–	9,486
Less future finance charges	–	(160)
	–	**9,326**
The Toyota Hi Ace chattel mortgage has been paid out this financial year. Interest was recognised at an average rate of 5.85%		

Note 22. Auditor's remuneration

Amounts received or due and receivable by the auditor of the company for:		
– audit and review services	6,850	7,319
	6,850	**7,319**

Note 23. Director and related party disclosures

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

Vincent de Paul Cheers
Stephen Bernard Edmund
Anthony Patrick Harford
Dorothy Mortlock
Amber Britt Earles
Barry Leonard Irving
Gary Michael Cain
Janet Iris Hall
Stephen Robin
Andrew Ross Emerson (Resigned 15 November 2017)

The board has adopted a policy in respect to director fees with the following objectives:

- to attract and retain appropriately qualified and experienced directors; and
- to remunerate directors in regard to their responsibilities.

In accordance with board policy, director remuneration comprises a base fee together with a 9.5% superannuation guarantee charge. Directors fees are determined by the board and are not to exceed $100,000 in aggregate, the allocation of which is determined at the discretion of the board. This policy was approved by the shareholders at the 2007 Annual General Meeting held 31 October 2008.

During the normal course of business operations, Rye & District Community Financial Services Limited utilised services offered by local community business. Some of these transactions included businesses which some directors have direct or indirect interest. These transactions are considered to be made at an arms length basis and are on normal commercial terms.

Detailed shareholding disclosures are provided in the remuneration report, included as part of the directors' report.

	2018 $	2017 $

Note 24. Dividends paid or provided

	2018 $	2017 $
a) Dividends paid during the year		
Prior year proposed final		
100% (2017: 100%) franked dividend – 7.0 cents (2017: 6.25 cents) per share	**205,212**	**183,225**
b) Dividends proposed and not recognised as a liability		
Current year final dividend		
100% (2017: 100%) franked dividend – 7.5 cents (2017: 7.0 cents) per share	**219,870**	**205,212**
The tax rate at which dividends have been franked is 27.5% (2017: 27.5%)		
Dividends proposed will be franked at a rate of 27.5% (2017: 27.5%)		
c) Franking account balance		
Franking credits available for subsequent reporting periods are:		
– franking account balance as at the end of the financial year	1,002,087	939,783
– franking credits/(debits) that will arise from payment/(refund) of income tax as at the end of the financial year	(6,153)	27,104
– franking debits that will arise from the payment of dividends recognised as a liability at the end of the financial year	–	–
Franking credits available for future financial reporting periods:	**995,934**	**966,887**
– franking debits that will arise from payment of dividends proposed or declared before the financial report was authorised for use but not recognised as a distribution to equity holders during the period	(83,399)	(77,839)
Net franking credits available	**912,535**	**889,048**

Note 25. Earnings per share

	2018	2017
a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	346,829	285,355
	Number	**Number**
b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	2,931,602	2,931,602

Note 26. 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 27. 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 28. Segment reporting

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

Note 29. 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
239 Point Nepean Road Dromana Vic 3936	2271 Point Nepean Road Rye Vic 3941
	239 Point Nepean Road Dromana Vic 3936
	1087–1089 Point Nepean Road Rosebud Vic 3939

Note 30. Financial instruments

Financial instrument composition and maturity analysis

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

	Floating interest		Fixed interest rate maturing in						Non interest bearing		Weighted average	
			1 year or less		Over 1 to 5 years		Over 5 years					
Financial instrument	**2018 $**	**2017 $**	**2018 $**	**2017 $**	**2018 $**	**2017 $**	**2018 $**	**2017 $**	**2018 $**	**2017 $**	**2018 $**	**2017 %**
Financial assets												
Cash and cash equivalents	140,089	144,301	10	10	–	–	–	–	670	670	0.23	0.61
Receivables	–	–	–	–	–	–	–	–	315,237	323,538	N/A	N/A
Financial liabilities												
Interest bearing liabilities	–	–	226,854	236,693	–	9,259	1,326,393	1,418,134	–	–	4.15	4.36
Payables	–	–	–	–	–	–	–	–	21,4291	22,890	N/A	N/A

Note 27. Financial instruments (continued)

Net fair values

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

Credit risk

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

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

Interest rate risk

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

Sensitivity analysis

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

As at 30 June 2018, the effect on profit and equity as a result of changes in interest rate, with all other variables remaining constant would be as follows:

	2018 $	2017 $
Change in profit/(loss)		
Increase in interest rate by 1%	14,131	15,198
Decrease in interest rate by 1%	(14,131)	(15,198)
Change in equity		
Increase in interest rate by 1%	14,131	15,198
Decrease in interest rate by 1%	(14,131)	(15,198)

Directors' declaration

In accordance with a resolution of the directors of Rye & District 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 2018 and of its performance for the financial year ended on that date; and

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

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

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

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

Vin Cheers
Chairman

Signed on the 25th of September 2018.

AFS
Partners in success
Chartered Accountants

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

Independent auditor's report to the members of Rye & District Community Financial Services Limited

Report on the audit of the financial statements

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

i. giving a true and fair view of the company's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
ii. complying with Australian Accounting Standards.

What we have audited
Rye & District Community Financial Services Limited's (the company) financial report comprises the:

- ✓ Statement of profit or loss and other comprehensive income
- ✓ Balance sheet
- ✓ Statement of changes in equity
- ✓ Statement of cash flows
- ✓ Notes comprising a summary of significant accounting policies and other explanatory notes
- ✓ The directors' declaration of the entity.

Basis for opinion
We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report.

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Other information
The company usually prepares an annual report that will include the financial statements, directors' report and declaration and our independence declaration and audit report (the financial report). The annual report may also include "other information" on the entity's operations and financial results and financial position as set out in the financial report, typically in a Chairman's report and Manager's report, and reports covering governance and shareholder matters.

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

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

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

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

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2018. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Rye & District Community Financial Services Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

There are no key audit matters to disclose for the 30 June 2018 audit.

Directors' responsibility for the financial report

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

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

Auditor's responsibility for the audit of the financial report

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

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

Andrew Frewin Stewart
61 Bull Street, Bendigo, 3550
Dated: 25 September 2018

Graeme Stewart
Lead Auditor

NSX report

Rye & District Community Financial Services Limited is a public company incorporated in Australia and listed on the National Stock Exchange of Australia (NSX).

Shareholding

The following table shows the number of shareholders, segregated into various categories based on the total number of shares held.

Number of shares held	Number of shareholders	Number of shares held
1 to 1,000	83	58,285
1,001 to 5,000	280	898,636
5,001 to 10,000	64	497,848
10,001 to 100,000	60	1,375,836
100,001 and over	1	101,000
	488	**2,931,605**

Equity securities

Each of the above shareholders are entitled one 1 vote, irrespective of the number of shares held.

There are no substantial shareholders (holding more than 5% of voting rights) as each shareholder is entitled to one vote. Normally holding more than 5% of total issued shares would create a substantial shareholder, but this is not applicable due to the voting restrictions for the company.

There are three shareholders holding less than a marketable parcel of shares ($500 in value).

There are no restricted securities on issue.

All shares on issue are ordinary shares fully paid to $1 per share. There are no unquoted equity securities.

Ten largest shareholders

The following table shows the 10 largest shareholders.

Shareholder	Number of fully paid shares held	Percentage of issued capital
Planned Living Pty Ltd	101,000	3.45
Thomas Leigh Pty Ltd	86,000	2.93
Shirley Janette Wilding & Erik Anthony Hansen	64,810	2.21
John Leonard Seeber	60,000	2.05
Fund Raising Management Services Pty Ltd	46,003	1.57
Eileen Naylor	44,000	1.50
Bernard Wilfred & Patricia Tonks	42,236	1.44
Kay Dorothy Bishop	41,580	1.42
Kadan Superannuation Pty Ltd	39,195	1.34
Vincent De Paul Cheers & Jane Carmel Cheers	38,500	1.31
	563,324	

Registered office and principal administrative office

The registered office of the company is located at:

239 Point Nepean Road
Dromana VIC 3936
Phone: (03) 5981 0106

The principal administrative office of the company is located at:

239 Point Nepean Road
Dromana VIC 3936
Phone: (03) 5981 0106

Security register

The security register (share register) is kept at:
RSD Chartered Accountants
32 Garsed Street
Bendigo VIC 3550
Phone: (03) 5445 4200

Company Secretary

Sarah Marshall has been the Company Secretary of Rye & District Community Financial Services Limited for one and a half years. Sarah's qualifications include BA/LLB(Hons) from the University of Melbourne. Sarah has a background in corporate and commercial law in city law firms for eight years. Sarah's special responsibilities include membership of the Sponsorship and Marketing committees.

Corporate governance

The company has implemented various corporate governance practices, which include:

(a) the establishment of an Audit Committee (the members are Janet Hall and Dorothy Mortlock)

(b) director approval of operating budgets and monitoring of progress against these budgets

(c) ongoing director training, and

(d) bi-monthly director meetings to discuss performance and strategic plans.

Annexure 3

There are no material differences between the information in the company's Annexure 3 and the information in the financial documents in its Annual Report.

Five year summary of performance

	2014 $	2015 $	2016 $	2017 $	2018 $
Gross revenue	3,402,658	3,522,478	3,571,717	3,868,843	3,979,373
Net profit before tax	447,285	209,858	282,659	428,752	490,786
Total assets	5,209,865	5,114,528	5,797,223	5,581,689	6,218,861
Total liabilities	2,154,107	2,387,570	2,378,105	2,060,440	1,929,252
Total equity	3,055,758	2,726,958	3,419,118	3,521,249	4,289,609

2017/18 Sponsorships

A Non-exhaustive list of community organisations our company supported in 2016/17.

Anglican Parish of Sorrento & Rye - Arts Committee	$1,000.00
Art Red Hill (Red Hill Consolidated School)	$1,000.00
Arthurs Seat Challenge; Mornington Peninsula Fit2Drive	$5,000.00
Association for Building Community in Dromana	$1,000.00
Australian Volunteer Coastguard	$7,200.00
Balnarring Picnic Racing Club	$2,000.00
Birdlife Australia - Mornington Peninsula Branch	$1,000.00
Boneo Baseball & Softball Club	$1,000.00
Boneo Braves Baseball Club	$500.00
Boneo Primary School	$4,000.00
Boneo Rural Fire Brigade	$8,000
Caroline Chisholm Education Foundation (Chisholm Institute)	$10,000.00
Carrington Park at Eagle Ridge Ladies Golf Club	$500.00
Carrington Park Club	$2,000.00
Clothes4U Incorporated	$5,000.00
Connor's Run	$500.00
Crystal Ocean Wildlife Shelter	$500.00
Dreamhouse Theatre Company	$2,000.00
Dromana & District Historical Society	$1,100.00
Dromana Australia Day Committee No. 1 Inc	$5,000.00
Dromana Bowls Club	$3,000.00
Dromana College	$2,000.00
Dromana Cricket Club	$1,000.00
Dromana Football & Netball Club	$10,000.00
Dromana Foreshore Committee of Management	$2,500.00
Dromana Junior Football & Netball Club	$3,000.00
Dromana Primary School	$16,000.00
Dromana Secondary College	$1,000.00
Dromana Tennis Club	$2,000.00
Dromana Valley Probus Inc	$750.00
Eastbourne Primary School	$8,000.00
Flinders Lions Club	$2,000.00
Food For All	$4,800.00
Fort Nepean Rover Crew	$1,500.00
Girl Guides Association (MP District)	$2,500.00
Griefline/Chamberlain Foundation Razor Ride 2017	$1,000.00
Gunnamatta Surf Lifesaving Club	$3,000.00
Habitat for Humanity Rosebud Restore	$2,000.00
Inghams Growers Association	$1,500.00
Janice Earth Community	$1,000.00
Light Up Autism Foundation	$15,000.00

Lions Club of McCrae & District	$1,000.00
Living Culture Limited	$10,000.00
Main Ridge Bowls & Petanque Club	$5,500.00
Main Ridge Cricket Club	$1,000.00
Main Ridge Men's Shed	$1,500.00
Main Ridge Pony Club	$5,000.00
McCrae Homestead Coastal Group Inc	$2,000.00
McCrae Yacht Club	$2,500.00
Mornington Peninsula Bowls Inc	$3,000.00
Mornington Peninsula Hockey Club	$2,000.00
Mornington Peninsula TPI Social Club	$500.00
Mornington Peninsula Veterans Golfers Association Inc	$500.00
OCRF/Silver Lining Ride	$5,000.00
Our Lady of Fatima School - Parents Association	$1,000.00
Peninsula Country Music Club Inc	$500.00
Peninsula Home Hospice	$5,000.00
Peninsula Obedience Dog Club	$1,000.00
Peninsula Speaks Inc	$2,000.00
Peninsula Studio Trail	$1,000.00
Portsea/Sorrento RSL Bowls Club	$700.00
Probus Club of Safety Beach	$500.00
Red Hill Consolidated School	$8,000.00
Red Hill District Lions Club	$2,000.00
Red Hill Football Netball Club	$10,000.00
Red Hill Memorial Preschool	$3,000.00
Red Hill Scouts	$1,500.00
Rosebud & McCrae Lifesaving Club	$2,500.00
Rosebud Australia Day Association	$5,000.00
Rosebud Bowls Club	$3,000.00
Rosebud Chamber of Commerce	$7,000.00
Rosebud Country Club - Bowls Section	$3,000.00
Rosebud Country Club - Junior Golf	$1,000.00
Rosebud Cricket Club	$1,000.00
Rosebud Football & Netball Club	$10,000.00
Rosebud Italian Club	$2,000.00
Rosebud Junior Football Club	$3,000.00
Rosebud Netball Club	$1,000.00
Rosebud Over 50's Social Club	$2,000.00
Rosebud Rock N Rods Festival	$750.00
Rosebud SC Chaplaincy Program	$5,000.00
Rosebud Scout Group	$1,666.00
Rosebud Secondary College	$8,000.00
Rosebud Toy Library	$2,000.00
Rotary Club of Dromana	$1,500.00
Rotary Club of Sorrento	$4,000.00

2017/18 Sponsorships (continued)

Royal District Nursing Service	$17,600.00
Rye Beach Probus Inc	$2,952.00
Rye Bowls Club	$3,000.00
Rye Community House	$5,000.00
Rye Cricket Club	$1,000.00
Rye Football & Netball Club	$10,000.00
Rye Historical Society	$870.00
Rye Junior Football Club	$3,000.00
Rye Netball Club	$1,500.00
Rye Sports & Social Club	$10,000.00
Rye Tennis Club Inc	$2,000.00
Rye Yacht Club	$2,500.00
Safety Beach - Dromana Men's Shed Inc	$2,000.00
Safety Beach Foreshore Landscape Committee Inc	$1,500.00
Safety Beach Golf Club	$2,000.00
Safety Beach Sailing Club	$1,950.00
Seawinds Community Hub	$4,500.00
Sister Carmel Southern Peninsula Cancer Support	$12,000.00
Sorrento Bowls Club Inc	$3,000.00
Sorrento Community Centre	$7,500.00
Sorrento Cricket Club	$1,000.00
Sorrento Football & Netball Club	$20,000.00
Sorrento Junior Football Club	$3,000.00
Sorrento Portsea Chamber of Commerce	$1,000.00
Sorrento Preschool Association	$5,000.00
Sorrento Sea Scouts	$5,000.00
Sorrento Surf Lifesaving Club	$2,500.00
Soup for Schools (auspiced by Rye Community House)	2,946.00
South West Mornington Peninsula Landcare	$2,500.00
Southern Mornington Peninsula Uniting Church - Dromana Playgroups	$1,000.00
Southern Mornington Peninsula Uniting Church - Rosebud Playgroup	$500.00

Southern Peninsula Classic & Historic Car Club Inc	$500.00
Southern Peninsula Community Support & Information Centre	$40,000.00
Southern Peninsula Indoor Bias Bowls Association Inc	$400.00
Southern Peninsula Slim & Trim Day Club	$500.00
Spark Youth Dance Company Inc	$5,000.00
St Andrews Beach Petanque Club	$1,000.00
St Andrews Beach Recreation Club	$2,500.00
St Vincent de Paul (Mary's Van - Rosebud)	$7,098.00
Studio Sorrento Inc	$1,000.00
The Buckley Opera Project (auspiced by the Rosebud Astral Theatre Society)	$2,000.00
The Dunes Golf Club	$1,000.00
The Friday Club - Anglican Parish of Sorrento & Rye	$2,500.00
The Friends of Rosebud Beach & Foreshore Committee	$2,000.00
The Portsea Camp	$5,500.00
The Village Glen Bowls Club	$3,000.00
The Village Glen Croquet Club	$1,000.00
The Village Glen Fidelity Club	$500.00
The Village Glen Golf Club	$2,500.00
Tootgarook Netball Club	$1,000.00
Tootgarook Primary School	$8,000.00
Vinnie's Kitchen	$4,800.00
West Rosebud Bowling & Croquet Club Inc	$3,000.00
Woodworkers of the Southern Peninsula	$2,000.00
YMCA/Southern Peninsula Youth Services	$50,000.00
Your Community Bank Sports Youth Leadership Program (GameChangers)	$25,000.00

Rye & District **Community Bank**® Branch
2271 Point Nepean Road, Rye VIC 3941
Phone: (03) 5985 9755
www.bendigobank.com.au/rye

Dromana **Community Bank**® Branch
239 Point Nepean Road, Dromana VIC 3936
Phone: (03) 5981 0106
www.bendigobank.com.au/dromana

Rosebud **Community Bank**® Branch
PO Box 301, Rye VIC 3939
Phone: (03) 5982 0499
www.bendigobank.com.au/rosebud

Franchisee: Rye & District Community Financial Services Limited
PO Box 301, Rye VIC 3941
Phone: (03) 5987 0754
ABN: 67 095 766 895

Share Registry:
RSD Chartered Accountants
Postal Address:
PO Box 30, Bendigo VIC 3552
Phone: (03) 5445 4200 Fax: (03) 5444 4344
Email: shareregistry@rsdadvisors.com.au
www.rsdadvisors.com.au

www.facebook.com/rye.dromana.rosebud.BBL
(FUSEBOX 10/18)