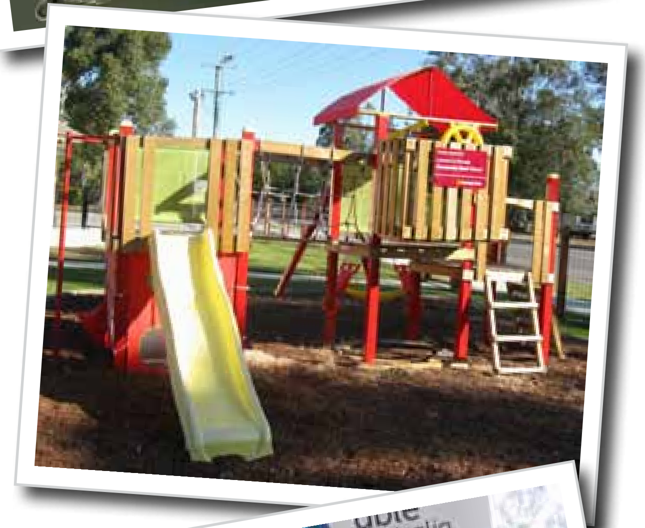
Lowood & Fernvale **Community Bank®** Branch



annual report 2016

Somerset Region
Community Enterprises Limited
ABN 33 138 179 450

Contents

Vision Statement

Partnering strong prosperous communities

Mission Statement

Delivering quality banking services to the mutual benefit of clients and communities in the Somerset Region

Chairman's report

As Chairman of the Somerset Region Community Enterprises Ltd., I am pleased to announce this past year has been one of excellent growth for our Lowood & Fernvale Community Bank branch.

We exceeded our target to build the business from $77.2million to $83million by 14.89%.. Our holdings now stand at $88.7million.

Well done to Michael and his team of Leonie, Sue, Natasha and Janine

This year, we were extremely pleased to provide shareholders with a dividend of 3.5% plus a bonus 2%. We also supported our community with grants, sponsorships, donations, advertising and promotions totalling $99,295.

A total of $220,916.47 has now been re-invested in our community, after only 6 years of community banking in Lowood and Fernvale.

New people to have joined our board this past year include Annabelle Boughen, Des Wright and Aaron Heck With these new directors, we have a very experienced Board.

At our Community forum in August 2015, numerous projects worthy of investment in our local community were identified by those in attendance. To date, submissions from the following groups, GlamorganVale P&C, Prenzlau Rural Fire Brigade, Folk Art Co-Operative, Fernvale Lions, Somerset Art Society and Prenzlau State School have been supported.

Another project identified at the forum was the beautification of Lowood. We are working closely with Somerset Regional Council and other interested parties to advance a range of projects, including uniformed public seating in Lowood, additional tree planting along walkways and the Rail Trail, improvements to the 3 main town entrances, installing fitness equipment along the Rail Trail, additional lighting in Clock park, a mural near the skate park and an electronic public notice board

One difficult decision this past year was to discontinue, on business grounds, the Fernvale Agency. We did, however, welcome the opportunity to consult with the newly formed Toogoolawah Community Bank Steering Committee regarding their plan to establish a greater Bendigo presence in their town.

I would like to thank our Bank team for their continued commitment and professionalism and our Board of Directors for their commitment, as volunteers, to manage our growing company.

In conclusion I wish to extend my thanks and appreciation to our loyal customers and Shareholders for their commitment and support during the past year.

Keith Manz *(Chairman)*
Somerset Region Community Enterprises Ltd.

Manager's report

For the year ending 30 June 2016.

I am pleased to present my third report as Manager of the Lowood and Fernvale Community Bank.

I am proud to report that in a continually challenging environment that we have been able to grow the business 14.89% to finish the year with total footings of $88.7m. We have also managed to maintain a good balance in our book with loans totalling $53.6m, deposits totalling $32.6m and other business totalling $2.5m.

The banking industry is currently very price driven and margins are being squeezed by the low rate environment that we are currently operating in, however, in saying that through the ongoing support of our shareholders and clients we have been able to assist a number of local groups achieve positive outcomes. For the first time this year we were also thrilled to be able to offer a scholarship to a first time University student to assist with their ongoing study expenses, we had three very deserving applicants apply and it was decided to provide all three applicants a scholarship. I congratulate again Jason Walker, Ironbark Venner and Lauren Adsett.

We continue to be extremely fortunate with our fantastic branch team who have again provided the stable foundation from which we are able to operate our business from, my sincerest thanks goes out to Leonie Sippel (Customer Relationship Officer); Sue Kendrick (Senior Customer Service Office); Natasha Harris (Customer Service Officer) and Janine Watkins (Customer Service Officer) for all of your hard work and dedication throughout the year.

On top of driving the growth in the business over the last 12 months the branch team had a number of achievements throughout the year, most notably we were the winners of the Branch of the Month for South West Queensland in January and June and also in June we ranked 10th out of 498 branches nationally in the bank's Leaderboard.

There is a lot of work involved in operating a Community Bank and on that note I would also like to provide thanks to the board of Somerset Region Community Enterprises. Our board volunteer their time for the sole purpose of driving outcomes for the local community. They attend up to 2 meetings per month and take every opportunity to attend events where they can continue to tell our story, our achievements would not be possible without our board.

In closing and as always it is only through the support of the greater community that we are able to operate. Your Community Bank is able to offer the full service of your banking needs, so I ask that you please consider us for any of your financial needs

Michael Doherty
Branch Manager
Lowood & Fernvale Community Bank Branch

Agency

Our Agents

provide a valued

extended banking service

to our communities

ESK agency:

Dion and Tracey WENGEL

ESK

Directors' report

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

Directors

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

Keith Mervyn Manz
Chairman
Occupation: Business Manager
Qualifications, experience and expertise: Keith has been part of a local family business and has been active in community group for many years. He brings considerable local knowledge, business management and business development skills to the Board.
Special responsibilities: Chairman, member of Audit, Finance, Business Development and Marketing committees.
Interest in shares: 18,501

Jean Bray
Company Secretary
Occupation: Retired
Qualifications, experience and expertise: Former Community Partnership Manager with SEQCatchments Ltd. In addition to her Company Secretary responsibilities with the bank, she serves in a volunteer capacity as Director/Treasurer of Folk Art Cooperative Society Ltd. and Secretary of West Moreton Landcare Group Inc.
Special responsibilities: Secretary, Governance Committee.
Interest in shares: 7,001

Sharyn Marree Voss
Treasurer *(Appointed 9 February 2016)*
Occupation: Personal Assistant to Director of Nursing
Qualifications, experience and expertise: Sharyn has been employed by Bundaleer Lodge Nursing Home for the past 35 years. She has a Diploma in Management, Business & Administration and also serves as a Commissioner of Declarations. She is Secretary/Treasurer of the South East Queensland Illawarra Cattle Club and serves on the Queensland Dairy Showcase Committee. Sharyn and her husband have owned and operated a cattle transport business from their dairy farm at GlamorganVale for the past 29 years.
Special responsibilities: Treasurer, Marketing Committee
Interest in shares: 5,000

Brett Wayne Freese
Director
Occupation: Information Technology Professional
Qualifications, experience and expertise: Brett has considerable experience in the Communications industry and has an Associate Diploma in mathematics and computing. He is extensively involved in local community work as a Director of the GlamorganVale Water Board, GlamorganVale Tennis Club, GlamorganVale Community Hall Association and Fernvale Lions Club. He currently works in the IT area for Ipswich City Council as a team leader. He owns a small crop and cattle property at GlamorganVale
Special responsibilities: Marketing Committee Chairman
Interest in shares: 1

Michael David Ogg
Director
Occupation: Councillor
Qualifications, experience and expertise: Michael owned and operated a successful business in Lowood for over 30 years. He currently serves as an elected representative on Somerset Regional Council. He has a passion for the arts, motor cycling, sailing, golf, the community and his family.
Special responsibilities: Marketing Committee
Interest in shares: Nil

Aaron Leigh Heck
Director *(Appointed 26 August 2015)*
Occupation: Business owner
Qualifications, experience and expertise: Aaron brings considerable business management and marketing skills to the Board. He has an extensive network of contacts across the community.
Special responsibilities: Marketing Committee
Interest in shares: Nil

Directors *(continued)*

Desmond William Wright
Director *(Appointed 23 March 2016)*
Occupation: Retired
Qualifications, experience and expertise: Desmond is President of the Lowood and District Golf Club. He previously served 3 years as Club Treasurer. His working career was based around sales and marketing in the building supply industry. He holds numerous certificates based on marketing, including a Diploma of Business Management and a Cert. 4 in Workplace Training and Assessment.
Special responsibilities: Marketing Committee
Interest in shares: Nil

Annabel Jane Boughen
Director *(Appointed 27 June 2016)*
Occupation: Administration & Construction
Qualifications, experience and expertise: Annabel worked for 10 years as a phlebotomist liaising with patients and health care professionals before commencing work with Boughens Bitumen. She teaches music and serves as an administrative officer for the Rosewood Lutheran Church and is the Organist at St Johns Lutherab Church at Coolana.
Special responsibilities: Marketing Committee
Interest in shares: Nil

Leon James Eustace
Director *(Resigned 30 September 2015)*
Occupation: Funeral Director
Qualifications, experience and expertise: Leon was appointed a Director of the Company in July 2015. He brought considerable business management skills and community knowledge to the Company.
Special responsibilities: Nil
Interest in shares: Nil

Susan Ann Robinson
Director *(Resigned 26 August 2015)*
Occupation: Retired
Qualifications, experience and expertise: Susan worked for Somerset Regional Council prior to her retirement. She remains involved in a number of community organisations and volunteers at numerous events in the region.
Special responsibilities: Chair of Marketing Committee.
Interest in shares: 1,001

Directors were in office for this entire year unless otherwise stated.

No directors have material interests in contracts or proposed contracts with the company.

Company Secretary

The company secretary is Jean Bray. Jean was appointed to the position of secretary on 8 July 2008. Jean is retired and volunteers her time for a number of community based organisations.

Principal Activities

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

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

Operating results

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

Year ended 30 June 2016 $	Year ended 30 June 2015 $
32,133	53,799

Dividends	Year ended 30 June 2016 Cents	$
Dividends paid in the year:	5.5	33,407

Significant changes in the state of affairs

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

Events since the end of the financial year

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

Likely developments

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

Environmental regulation

The company is not subject to any significant environmental regulation.

Directors' benefits

No director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a director, a firm which a director is a member or an entity in which a director has a substantial financial interest.

Indemnification and insurance of directors and officers

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

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

Directors' meetings

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

	Board Meetings Attended		Committee Meetings Attended			
			Planning & Business Development		Marketing	
	Eligible	*Attended*	*Eligible*	*Attended*	*Eligible*	*Attended*
Keith Mervyn Manz	11	11	1	1	11	11
Jean Bray	11	11	1	1	-	-
Sharyn Marree Voss *(Appointed 9 February)*	11	10	1	1	11	10
Brett Wayne Freese	11	10	1	1	11	11
Michael David Ogg	11	5	1	1	11	3
Aaron Leigh Heck *(Appointed 26 August 2015)*	9	8	1	1	9	7
Desmond William Wright *(Appointed 23 March 2016)*	4	4	1	1	3	3
Annabel Jane Boughen *(Appointed 27 June 2016)*	6	4	1	1	4	4
Leon James Eustace (*Resigned 30 September 2015)*	3	3	-	-	-	-
Susan Ann Robertson *(Resigned 26 August 2015)*	2	-	-	-	-	-

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

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

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

Auditor's independence declaration

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

Signed in accordance with a resolution of the board of directors at Lowood, Queensland on 9 September 2016.

K. M. Manz

Keith Mervyn Manz, Chairman

Auditor's independence declaration

Partners in success

Chartered Accountants

Lead auditor's independence declaration under section 307C of the *Corporations Act 2001* to the directors of Somerset Region Community Enterprises Limited

As lead auditor for the audit of Somerset Region Community Enterprises Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

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

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

Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550
Dated: 9 September 2016

David Hutchings
Lead Auditor

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

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TAXATION • AUDIT • BUSINESS SERVICES • FINANCIAL PLANNING

Financial statements

	Notes	2016 $	2015 $
Revenue from ordinary activities	4	695,108	638,157
Employee benefits expense		(340,527)	(301,856)
Charitable donations, sponsorship, advertising and promotion		(99,295)	(47,181)
Occupancy and associated costs		(52,019)	(48,480)
Systems costs		(21,011)	(20,996)
Depreciation and amortisation expense	5	(28,287)	(34,183)
General administration expenses		(108,114)	(99,150)
Profit before income tax expense		**45,855**	**86,311**
Income tax expense	6	(13,722)	(32,512)
Profit after income tax expense		32,133	53,799
Total comprehensive income for the year		**32,133**	**53,799**
Earnings per share for profit attributable to the ordinary shareholders of the company:		¢	¢
Basic earnings per share	22	5.29	8.86

The accompanying notes form part of these financial statements

	Notes	2016 $	2015 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	166,015	194,833
Trade and other receivables	8	65,434	50,323
Total Current Assets		**231,449**	**245,156**
Non-Current Assets			
Property, plant and equipment	9	99,026	113,628
Intangible assets	10	114,121	127,732
Deferred tax asset	11	17,974	31,696
Total Non-Current Assets		**231,121**	**273,056**
Total Assets		**462,570**	**518,212**
LIABILITIES			
Current Liabilities			
Trade and other payables	12	39,084	100,376
Provisions	13	17,510	14,540
Total Current Liabilities		**56,594**	**114,916**
Non-Current Liabilities			
Provisions	13	10,619	6,665
Total Non-Current Liabilities		**10,619**	**6,665**
Total Liabilities		**67,213**	**121,581**
Net Assets		**395,357**	**396,631**
Equity			
Issued capital	14	585,786	585,786
Accumulated losses	15	(190,429)	(189,155)
Total Equity		**395,357**	**396,631**

The accompanying notes form part of these financial statements

Financial statements (continued)

	Issued capital $	Accumulated losses $	Total equity $
Balance at 1 July 2014	585,786	(221,695)	364,091
Total comprehensive income for the year	-	53,799	53,799
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(21,259)	(21,259)
Balance at 30 June 2015	585,786	(189,155)	396,631
Balance at 1 July 2015	585,786	(189,155)	396,631
Total comprehensive income for the year	-	32,133	32,133
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(33,407)	(33,407)
Balance at 30 June 2016	585,786	(190,429)	395,357

The accompanying notes form part of these financial statements

Financial statements (continued)

	Notes	2016 $	2015 $
Cash flows from operating activities			
Receipts from customers		748,279	669,052
Payments to suppliers and employees		(677,061)	(558,226)
Interest received		2,097	1,615
Net cash provided by operating activities	16	73,315	112,441
Cash flows from investing activities			
Payments for property, plant and equipment		(670)	(3,314)
Payments of intangible assets		(68,056)	-
Net cash used in investing activities		(68,726)	(3,314)
Cash flows from financing activities			
Dividends paid		(33,407)	(21,259)
Net cash used in financing activities		(33,407)	(21,259)
Net increase/(decrease) in cash held		(28,818)	87,868
Cash and cash equivalents at the beginning of the financial year		194,833	106,965
Cash and cash equivalents at the end of the financial year	7(a)	166,015	194,833

The accompanying notes form part of these financial statements

Notes to the financial statements

Note 1. Summary of significant accounting policies

a) Basis of preparation

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

Compliance with IFRS

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

Critical accounting estimates

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

Historical cost convention

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

Comparative figures

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

Application of new and amended accounting standards

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

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

None of the amendments to accounting standards issued by the Australian Accounting Standards Board (AASB) that became mandatorily effective for accounting periods beginning on or after 1 July 2015, materially affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

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

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

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

a) Basis of preparation *(continued)*

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

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

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

Economic dependency - Bendigo and Adelaide Bank Limited

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank®** branch at Lowood, Queensland.

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

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

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

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

a) Basis of preparation *(continued)*

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

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

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

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

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

b) Revenue

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

Revenue calculation

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

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

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

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

Core banking products

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

Notes to the financial statements (continued)

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

b) Revenue *(continued)*

Margin

Margin is arrived at through the following calculation:

Interest paid by customers on loans less interest paid to customers on deposits

plus any deposit returns i.e. interest return applied by Bendigo and Adelaide Bank Limited for a deposit,

minus any costs of funds i.e. interest applied by Bendigo and Adelaide Bank Limited to fund a loan.

Note: In very simplified terms, currently, deposit return means the interest Bendigo and Adelaide Bank Limited gets when it invests the money the customer deposits with it. The cost of funds means the interest Bendigo and Adelaide Bank Limited pays when it borrows the money to give a customer a loan. From 1 July 2016, both will mean the cost for Bendigo and Adelaide Bank Limited to borrow the money in the market.

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

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

Commission

Commission is a fee paid for products and services sold. It may be paid on the initial sale or on an ongoing basis. Commission is payable on the sale of an insurance product such as home contents. Examples of products and services on which ongoing commissions are paid include leasing and Sandhurst Trustees Limited products. This currently also includes Bendigo Bank branded fixed rate home loans and term deposits of more than 90 days, but these will become margin products from 1 July 2016.

Fee income

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

Ability to change financial return

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

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

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

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

Monitoring and changing financial return

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

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

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

b) Revenue *(continued)*

Monitoring and changing financial return *(continued)*

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

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

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

c) Income tax

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

d) Employee entitlements

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

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

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

e) Cash and cash equivalents

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

f) Trade receivables and payables

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

g) Property, plant and equipment

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

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

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

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

h) Intangibles

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

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

i) Payment terms

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

j) Borrowings

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

k) Financial instruments

Recognition and initial measurement

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

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

Derecognition

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

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

k) Financial instruments *(continued)*

Classification and subsequent measurement

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

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

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

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

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

Impairment

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

l) Leases

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

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

m) Provisions

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

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

n) Contributed equity

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

o) Earnings per share

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

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

p) Goods and Services Tax

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

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

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

Note 2. Financial risk management

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

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

(i) Market risk

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

(ii) Price risk

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

(iii) Credit risk

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

(iv) Liquidity risk

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

(v) Cash flow and fair value interest rate risk

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

(vi) Capital management

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

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

The distribution limit is the greater of:

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

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

Note 2. Financial risk management *(continued)*

The board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the year ended 30 June 2016 can be seen in the Statement of Profit or Loss and Other Comprehensive Income.

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

Note 3. Critical accounting estimates and judgements

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

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

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

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

Taxation

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

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

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

Estimation of useful lives of assets

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

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net identifiable assets of the acquired branch/agency at the date of acquisition. Goodwill on acquisition is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses.
The calculations require the use of assumptions.

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 consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

Note 4. Revenue from ordinary activities	**2016**	**2015**
	$	**$**
Operating activities:		
- services commissions	643,011	586,542
- other revenue	50,000	50,000
Total revenue from operating activities	693,011	636,542
Non-operating activities:		
- interest received	2,097	1,615
Total revenue from non-operating activities	2,097	1,615
Total revenues from ordinary activities	695,108	638,157

Note 5. Expenses

Depreciation of non-current assets:		
- plant and equipment	4,578	4,055
- leasehold improvements	10,098	10,225
Amortisation of non-current assets:		
- franchise agreement	2,269	2,000
- establishment fee	-	15,067
- renewal fee	11,342	2,836
	28,287	34,183
Bad debts	987	1,334
Loss on disposal of asset	596	-

Notes to the financial statements (continued)

Note 6. Income tax expense		2016 $	2015 $
The components of tax expense comprise:			
- Movement in deferred tax		3,042	281
- Adjustment to deferred tax to reflect change to tax rate in future periods		654	1,668
- Recoupment of prior year tax losses		14,144	30,563
- Under/(Over) provision of tax in the prior period		(4,118)	-
		13,722	32,512
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows			
Operating profit		45,855	86,311
Prima facie tax on profit from ordinary activities at 28.5% (30% : 2015)		13,068	25,894
Add tax effect of:			
- non-deductible expenses		170	4,950
- timing difference expenses		906	(281)
		14,144	30,563
Movement in deferred tax		3,042	281
Adjustment to deferred tax to reflect change of tax rate in future periods		654	1,668
Under/(Over) provision of tax in the prior period		(4,118)	-
	11	13,722	32,512

Note 7. Cash and cash equivalents

Cash at bank and on hand	64,642	73,136
Term deposits	101,373	121,697
	166,015	194,833

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	64,642	73,136
Term deposits	101,373	121,697
	166,015	194,833

Note 8. Trade and other receivables

Trade receivables	55,428	43,024
Prepayments	10,006	7,299
	65,434	50,323

Notes to the financial statements (continued)

Note 9. Property, plant and equipment

	2016 $	2015 $
Leasehold improvements		
At cost	140,110	141,375
Less accumulated depreciation	(61,734)	(52,305)
	78,376	89,070
Plant and equipment		
At cost	57,521	56,851
Less accumulated depreciation	(36,871)	(32,293)
	20,650	24,558
Total written down amount	99,026	113,628

Movements in carrying amounts:

	2016 $	2015 $
Leasehold improvements		
Carrying amount at beginning	89,070	99,295
Additions	-	-
Disposals	(596)	-
Less: depreciation expense	(10,098)	(10,225)
Carrying amount at end	78,376	89,070
Plant and equipment		
Carrying amount at beginning	24,558	25,299
Additions	670	3,314
Disposals	-	-
Less: depreciation expense	(4,578)	(4,055)
Carrying amount at end	20,650	24,558
Total written down amount	99,026	113,628

Note 10. Intangible assets

	2016 $	2015 $
Franchise fee		
At cost	21,343	21,343
Less: accumulated amortisation	(12,836)	(10,567)
	8,507	10,776
Establishment fee		
At cost	100,000	100,000
Less: accumulated amortisation	(100,000)	(100,000)
	-	-
Renewal processing fee		
At cost	56,713	56,713
Less: accumulated amortisation	(14,178)	(2,836)
	42,535	53,877
Agency buy-out fee		
At cost	63,079	63,079
	63,079	63,079
Total written down amount	114,121	127,732

Note 11. Tax

	Note	2016 $	2015 $
Non-Current:			
Deferred tax assets			
- accruals		934	699
- employee provisions		7,735	6,043
- tax losses carried forward		14,404	24,954
		23,073	31,696
Deferred tax liability			
- property, plant and equipment		5,099	-
Net deferred tax asset		17,974	31,696
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	6	13,722	32,512

Note 12. Trade and other payables

	2016 $	2015 $
Current:		
Trade creditors	20,629	11,161
Other creditors and accruals	18,455	89,215
	39,084	100,376

Note 13. Provisions

	2016 $	2015 $
Current:		
Provision for annual leave	17,510	14,540
Non-Current:		
Provision for long service leave	10,619	6,665

Note 14. Contributed equity

	2016 $	2015 $
607,407 ordinary shares fully paid (2015: 607,407)	607,407	607,407
Less: equity raising expenses	(21,621)	(21,621)
	585,786	585,786

Rights attached to shares

(a) *Voting rights*

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

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

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

Note 14. Contributed equity *(continued)*

Rights attached to shares *(continued)*

(b) *Dividends*

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

(c) *Transfer*

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

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

Prohibited shareholding interest

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

In summary, a person has a prohibited shareholding interest if 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 196. As at the date of this report, the company had 221 shareholders.

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

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

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

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

Note 15. Accumulated losses	**2016 $**	**2015 $**
Balance at the beginning of the financial year	(189,155)	(221,695)
Net profit from ordinary activities after income tax	32,133	53,799
Dividends paid or provided for	(33,407)	(21,259)
Balance at the end of the financial year	(190,429)	(189,155)

Note 16. Statement of Cash Flows	2016 $	2015 $
Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities		
Profit from ordinary activities after income tax	32,133	53,799
Non cash items:		
- depreciation	14,676	14,280
- amortisation	13,611	19,903
- loss on disposal of asset	596	-
Changes in assets and liabilities:		
- (increase)/decrease in receivables	(15,111)	(19,793)
- (increase)/decrease in other assets	13,722	32,512
- increase/(decrease) in payables	6,764	15,128
- increase/(decrease) in provisions	6,924	(3,388)
Net cash flows provided by operating activities	73,315	112,441

Note 17. Leases

Operating lease commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable - minimum lease payments:		
- not later than 12 months	33,100	31,014
- between 12 months and 5 years	91,026	116,302
- greater than 5 years	-	-
	124,126	147,316

The branch premises lease is a non-cancellable lease with a five-year term. The lease is due for renewal on 24 March 2020 and has one five year renewal option remaining. Rent is payable monthly in advance.

Note 18. Auditor's remuneration

Amounts received or due and receivable by the auditor of the company for:		
- audit and review services	4,100	3,950
- share registry services	3,050	3,609
- non audit services	3,155	1,019
	10,305	8,578

Note 19. Director and related party disclosures

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

Keith Mervyn Manz
Jean Bray
Sharyn Marree Voss
Brett Wayne Freese
Michael David Ogg
Aaron Leigh Heck *(Appointed 26 August 2015)*
Desmond William Wright *(Appointed 23 March 2016)*
Annabel Jane Boughen *(Appointed 27 June 2016)*
Leon James Eustace *(Resigned 30 September 2015)*
Susan Ann Robertson *(Resigned 26 August 2015)*

No director or related entity has entered into a material contract with the company. No director's fees have been paid as the positions are held on a voluntary basis.

Note 19. Director and related party disclosures *(continued)*

Directors Shareholdings	**2016**	**2015**
Keith Mervyn Manz	18,501	18,501
Jean Bray	7,001	7,001
Sharyn Marree Voss	5,000	5,000
Brett Wayne Freese	1	1
Michael David Ogg	-	-
Aaron Leigh Heck *(Appointed 26 August 2015)*	-	-
Desmond William Wright *(Appointed 23 March 2016)*	1,000	-
Annabel Jane Boughen *(Appointed 27 June 2016)*	-	-
Leon James Eustace (*Resigned 30 September 2015)*	-	-
Susan Ann Robertson *(Resigned 26 August 2015)*	1,001	1,001

There was no movement in directors shareholdings during the year.

Note 20. Dividends paid or provided	**2016** **$**	**2015** **$**
a. Dividends paid during the year		
Current year dividend		
Unfranked dividend - 5.5 cents (2015: 3.5 cents) per share	33,407	21,259

Note 21. Key Management Personnel Disclosures

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

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

Community Bank® Directors' Privileges Package

The board has adopted the **Community Bank®** Directors' Privileges Package. The package is available to all directors, who can elect to avail themselves of the benefits based on their personal banking with the **Community Bank® branch/es** at **Somerset Region Community Enterprise Limited**. There is no requirement to own BEN shares and there is no qualification period to qualify to utilise the benefits. The package mirrors the benefits currently available to Bendigo and Adelaide Bank Limited shareholders. The total benefits received by the directors from the Directors' Privilege Package are $96 for the year ended 30 June 2016 (2015: $nil).

Notes to the financial statements (continued)

Note 22. Earnings per share		2016 $	2015 $
(a)	Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	32,133	53,799
		Number	Number
(b)	Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	607,407	607,407

Note 23. Events occurring after the reporting date

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

Note 24. Contingent liabilities and contingent assets

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

Note 25. Segment reporting

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

Note 26. Registered office/Principal place of business

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

Registered Office	Principal Place of Business
Shop 15/6 Walter Street LOWOOD QLD 4311	Shop 15/6 Walter Street LOWOOD QLD 4311

Notes to the financial statements (continued)

Note 27. Financial instruments

Financial Instrument Composition and Maturity Analysis

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

Financial instrument	Floating interest		Fixed interest rate maturing in: 1 year or less		Over 1 to 5 years		Over 5 years		Non interest bearing		Weighted average	
	2016 $	2015 $	2016 $	2015 $	2016 $	2015 $	2016 $	2015 $	2016 $	2015 $	2016 %	2015 %
Financial assets												
Cash and cash equivalents	64,642	73,136	101,373	121,697	-	-	-	-	-	-	2.64	2.03
Receivables	-	-	-	-	-	-	-	-	55,428	43,024	N/A	N/A
Financial liabilities												
Payables	-	-	-	-	-	-	-	-	20,629	11,161	N/A	N/A

Net Fair Values

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

Credit Risk

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

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

Interest Rate Risk

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

Sensitivity Analysis

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

As at 30 June 2016, the effect on profit and equity as a result of changes in interest rate, with all other variables remaining constant would be as follows:

	2016 $	2015 $
Change in profit/(loss)		
Increase in interest rate by 1%	1,660	1,948
Decrease in interest rate by 1%	1,660	1,948
Change in equity		
Increase in interest rate by 1%	1,660	1,948
Decrease in interest rate by 1%	1,660	1,948

Directors' declaration

In accordance with a resolution of the directors of Somerset Region Community Enterprises Limited, we state that:

In the opinion of the directors:

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

(i) giving a true and fair view of the company's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and

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

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

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

K. M. Manz

Keith Mervyn Manz, Chairman

Signed on the 9th of September 2016.

Independent audit report

Partners in success

Chartered Accountants

Independent auditor's report to the members of Somerset Region Community Enterprises Limited

Report on the financial report

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

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

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

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

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TAXATION • AUDIT • BUSINESS SERVICES • FINANCIAL PLANNING

Independent audit report (continued)

Independence

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

Auditor's opinion on the financial report

In our opinion:

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

Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550
Dated: 9 September 2016

David Hutchings
Lead Auditor

Directors

Keith Mervyn MANZ
Company Chairman

Sharyn VOSS
Company Treasurer

Brett Freese
Chairman – Marketing Committee

Jean BRAY
Company Secretary

Aaron HECK
Director

Michael OGG
Director

Annabel BOUGHEN
Director

Desmond WRIGHT
Director

Sponsorships 2015-2016

Abel Australia
AmazonsNetball Club
Brisbane Valley Soccer Club
Chaplaincy program - Lowood
Esk Scouts
Fernvale Lions
GlamorganVale State School
GlamorganVale State School P & C
Glenwood Aged Care Hostel
Fernvale State School
Folk Art Cooperative
Ipswich Youth Community Services
Lowood Bowls Club
Lowood QCWA
Lowood & District Golf Club
Lowood Lions Club
Lowood Slimmers
Lowood Show Society
Lowood State High School
Lowood Primary School
Minden State School
Mt Tarampa State School
Prenzlau Rural Fire Brigade
Prenzlau State School
Somerset Art Society
Somerset Vision Impaired Support Group
St Johns Lutheran Church – Coolana
Uniting Church – Fernvale

Student Scholarships

Ironbark Venner
Lauren Adsett
Jason Walker

Events Sponsorships

Lowood & Fernvale Bendigo Community Bank forum
140th birthday celebrations – GlamorganVale State School
West Moreton Regional Show Girls & Ambassadors finals
ABEL Christmas celebrations
Brisbane Valley Rail Trail Fun Run
NAIDOC celebrations – Lowood
Prenzlau Pride Day
Somerset Seniors Week celebrations
Utes and Chutes – Lowood
Lowood Rodeo

Lowood & Fernvale **Community Bank**® Branch,
Shop 15, 6 Walter Street, Lowood QLD 4311
Phone: (07) 5426 1208

Franchisee: Somerset Region Community Enterprises Limited
Shop 15, 6 Walter Street, Lowood QLD 4311
Phone: (07) 5426 1208
ABN: 33 138 179 450

www.bendigobank.com.au/lowood_fernvale