Annual Report 2019

Valley Community Financial Services Limited

Hurstbridge, Diamond Creek, Eltham, Doreen & Mernda **Community Bank**® Branches and Kinglake Branch

ABN 86 092 399 730

Contents

Chairman's Report

For year ending June 30, 2019

This is my first report to shareholders as Chair of the Board of Valley Community Financial Services Limited, so I'll begin by acknowledging the profound passion, outstanding commitment and dedicated leadership which Barry Henwood has provided in this role over the past eleven years. Much of our success as a ground-breaking and profitable Community Bank group is a consequence of Barry's vision and leadership. While Barry has stepped down as Chairman, he will remain on the Board working in the role of Executive Director, focussed on implementing our strategic plan to grow the business. Thank you, to our dedicated Board of Directors who have continued to show great commitment and enthusiasm to the company and its goals. I can assure shareholders that being a director of a Community Bank Board is not an honorary position and that our directors contribute many hours each month to our business committees and community engagement.

The best plans in the world mean nothing without a committed, hardworking staff who share the passion for community and embrace the company's goals. Our administration staff keep the Board, our projects and regulatory obligations on track and have once again demonstrated their outstanding dedication to the shareholders and our community outcomes. Our bank staff have risen to the challenges this year, responding to the initiatives of Bendigo Bank while adjusting to the training and flexibility required by the company. We are fortunate to have such a strong staff team and I thank them all for their work across this past year.

Over the last decade the complexity of administering a Community Bank group of our size has increased enormously. The Executive role has been fundamental to meeting the challenges posed by Bendigo Bank internal policies and the consequences of changing requirements and customer behaviour. In recent years we have reported that Bendigo Bank's "Restoring the Balance" and Funds Transfer Pricing (FTP) arrangements challenged our capacity to generate the margins of the past. This year Community Banks were further squeezed by uncertainties and new lending restrictions arising from the Banking Royal Commission, combined with increasing competition in the banking sector and a downturn in the housing market. Bendigo Bank has responded by announcing significant customer acquisition targets, primetime advertising, increased investment in technology and the introduction of highly competitive products. Our business transformation strategy which commenced in 2017 has enabled us to respond to the changing conditions. Many of our staff have achieved lending accreditation, our mobile lenders are reaching new business opportunities and staff training has focussed on increased understanding of customer needs in order to generate business. We have achieved some efficiencies and flexibility in our human resources across the branches and are responding to customer interest in social media as a means of communication and marketing.

Given the difficult banking environment I am pleased to report a profit of $304,250 (nett tax) allows us to maintain the dividend and continue support for the community at current levels. The modest increase in footings is by all accounts a significant achievement and the stronger performances in Eltham and Doreen branches will provide important foundations when conditions improve. An important aspect of our strategic plan is the goal of protecting shareholder value through assets which can work in the interests of the business to reduce rental outgoings. The purchase of Shop 1, 72 Main Hurstbridge Road in the Diamond Creek Plaza announced to shareholders in May 2019 is a significant step toward fulfilling this goal. A number of successful Community Bank companies are now adopting this strategy as a way of hedging against uncertain times and changing branch footprints.

As a Bendigo Bank Community Bank Company, we are part of the most successful social enterprise in Australia. You should feel proud of your involvement with such a highly regarded organisation and notably one which emerged from the Royal Commission with its reputation intact. Partnership with the community remains our brand's fundamental point of difference and the reason we have so many motivated directors, staff and customers. During this past year we have maintained strong support for community-based groups, sporting clubs and local projects; partnering with service organisations, not for profits and Nillumbik Council to achieve positive outcomes. During 2018-19 we invested $185,335 in sponsorships across approximately 115 community groups. Many of our sponsorships provide support for the regular activity of a group or make it possible to conduct a special event or purchase equipment beyond their means. But sometimes an opportunity presents itself where an initiative of one group can have far reaching benefits for many others.

In 2018 two projects demonstrate the transforming power of the Community Bank model. Over the years we've become quite good at making things happen, using our funds to start or seal a project. When we were approached by Kinglake Ranges Children's Centre to support purchase of a small second-hand bus, we were able to call on our past experience and network within the philanthropic arm of Bendigo Bank. Using the last funds remaining from Bendigo Bank's Black Saturday Disaster fund topped up with $17,000 from our own Community Enterprise Foundation (CEF) account, we were able to support the purchase of a new 12-seater bus. In this way we have been able to bring funds together which will aid not only the early childhood centre but also assist community groups right across the Kinglake Ranges.

Following a presentation at the 2017 Community Bank Conference we became aware of a significant gap in support services for families with a child on the autism spectrum. State government supports these children through the education system, but the support needs of families go largely unmet. Having discovered this gap in our community we made a $50,000 commitment by partnering with Spectrum Journeys for twelve months to deliver community education workshops and outreach support. Once the need is fully demonstrated we will engage with government and other services to marshal sustainable, ongoing support.

In recent years we have been keen to increase our capacity to support major projects. To this end, we have taken advantage of the Community Enterprise Foundation's ability to deliver a tax effective vehicle to hold and distribute philanthropic funds. We are also exploring a partnership with the Swinburne University of Technology Centre for Social Impact so we can increase our knowledge and objectively assess the underlying community impact of our sponsorships and grants program. This is an exciting initiative. Our progress will be reported in future shareholder newsletters.

We know that the community strengthening activities of Community Banks is valued and widely respected. Consequently, approval of the Bendigo Bank brand is rated amongst the top five of all Australian companies. However, the challenge for us remains, can we convert the love into business? To this end we work with sponsorship and grant recipients to advocate for their members to switch their banking or at least discuss their banking needs with our staff. Growing our customer base and the number of products they take is the key to surviving and thriving through the years ahead. As a shareholder, you too can help us to grow the business with your own banking and by acting as an advocate for the Community Bank Branches. Aside from competitive products and personal service the benefits will come back as a stronger community and a healthy dividend.

Malcolm Hackett OAM
Chair

Executive Director's Report

For year ending June 30, 2019

Welcome to my first annual report as Executive Director of Valley Community Financial Services Limited and thank you for allowing me to continue in this role.

The role of Executive Director within this group is to primarily implement company strategy, identify opportunities for growth and development within our business, build strong relationships between board and our banking staff and continue to grow relationships and partnerships with the local community.

A key role of Executive Director is to review the way we do business, develop design and implement any change management and staff structures. It's also important to constantly review the location and size of our footprint or occupancies and renegotiate lease renewals and our franchise agreements with the bank.

The bankers focus on growing our branches, compliance and day to day staffing, leaving the Executive Director to work on the business not in it.

2019 Overview

I think its well-known right across the Australian community that banking businesses have struggled for a multitude of reasons for the 2019 financial year. We experienced the Royal Commission into banking, tightening of the rules and regulations via the regulator APRA and declining real estate sales and values.

The good news is that the Bendigo Bank came through the Royal Commission extremely well. Our mutual values, compliance and focus on customer and community outcomes helped with the way we do business and reflects community values and expectations.

The other good news is that we managed to grow our bank footings albeit considerably less than our budgeted growth. Provided we continue to grow our bank footings we will invariably grow our business and as economies change, we should see improvements in our revenue.

Customers are tending to come into the bank only when conducting new business. More and more transactional business takes place online, so we need to concentrate on being able to provide the services within our branches that people are looking for.

Once again in 2019 financial year we have experienced a tightening of margins which has become the catch cry in my annual reports for the last several years. So, while we have seen an increase in the size of our business, we experienced a reduction in our gross revenue. The company has contained our costs well while continuing to invest in our future. You can see this explained more clearly in our Treasurers report.

As with many if not most Bendigo Bank branches across the country, our Hurstbridge branch struggled to maintain the footings book this year. As a branch matures there becomes a need to replace mature loans and deposits as they leave just to stay the same, plus deliver enough new business to grow the branch footings. It is pleasing to be able to report that our other branches were able to go against the trend and grow their footings. Eltham and Doreen/Mernda branches delivered solid footings growth and Diamond Creek continued to go ahead.

Staffing Matters

We continue to develop a genuine career path for our staff. This year we have provided further sales training over and above that offered by the Bendigo Bank and we've continued to up skill our staff to reflect the requirements of our customers now and into the future. It is important to invest in our people and our business so that we can take advantage of every opportunity that arises.

During 2019 we have created Branch Manager roles promoted from Customer Relationship Managers increasing the branch capacity to write new business.

As transaction numbers decline there is less reliance on Customer Service Officers, that is tellers, and a greater need for people that can open accounts, attend to customers' requests and applications for various products the bank offers. Our business is moving with industry, ready to serve customers in whatever method they prefer. We have Business Development Managers who can go to the customer when and where the customer wants. This is how we continue to offer great service to our communities in line with the original Community Bank values when we first opened in 2001.

Building Shareholder Backing

Forming part of the company's current strategy plan is a commitment to create more tangible capital assets to support shareholder funds. VCFS has a very healthy cash on hand on the balance sheet plus a raft of assets that may be very difficult to realize their value if required to sell, so directors have decided the company needs to create other assets to support shareholder funds into the future. In May 2019, VCFS purchased a building at Shop 1, 72 Main Hurstbridge Road, Diamond Creek. This capital asset is wholly owned by the company, has a long lease, provides a return of approximately 5% on our capital and has good potential for capital growth in future years retaining the current real value. The site happens to be the original building where Diamond Creek branch was located. Your directors see this as one of the prime retail sites in Diamond Creek.

Share Sales and Transfers

The low-volume market continues to work well for the company and for shareholders. During 2019 financial year, 44,000 shares changed ownership however, we have experienced increased demand in recent months.

The share price remains well below where we would like it to be, but we continue to promote the availability of shares within our branches and wherever possible.

Dividend returns on investment are very good. VCFS paid a 6.5 cents per share dividend in October 2018 fully franked which has created interest from our current shareholders, several whom have increased their portfolio over the last couple of years.

The Community Bank's business model is built around a strong set of values and culture of supporting local communities. Our business relies on its development and growth by feeding into the community rather than feeding off it. We contribute our profits and advertising dollars back into community groups, clubs, service clubs and local emergency services and we support local businesses for as many goods and services that we can. We employ local people whenever we can. That doesn't mean we hand out sponsorships as a no strings attached contribution. Without the support of members and associates of recipient sponsorship organisations we couldn't grow our business. One problem we experience is the constant change of membership and committee members. This often leads to the loss of memory and history between VCFS and the group. That could be a $20,000 sponsorship to a football club for training lights or $100,000 to a primary school during its rebuild that a few years down the track no one within the organisation knows of that contribution.

Telling Our Story Grows Our Business

A new initiative that we have commenced is what we call "the story behind the sign" project. We have commissioned a local man, Campbell Elmer, who has recently completed a journalism degree, to write some stories about the various contributions that VCFS have made throughout our local network since 2001. We have always maintained that where you see a sign on the fence then that tells you that there is a story behind the sign. It is a worthwhile challenge for people when they see our sign to work out what is the story behind that sign? We don't pay for signs on fences to promote our business, we make worthwhile contributions and coming out of that contribution we ask for a sign on the fence. Campbell is working with the groups, our people and our directors to deliver some short stories. We can publish these stories for our own use and have some framed and presented to the groups for display in their facilities for all to see.

Our business has a WOW factor that resonates with many people helping them to decide to use our bank. The best way for us to grow our business is to tell our story, why we came about, why we do what we do and the incredible $6,631,839.85 we have delivered back to community and shareholders since opening our first branch in 2001.

We look forward to the new 2020 financial year and expect an improvement in business conditions and will continue to strive to grow our footings our revenue and our net profit.

Barry Henwood
Executive Director

Operation & Compliance Manager's Report

For year ending June 30, 2019

It's fair to say that it has been a tough year for the banking industry as a whole to perform and has had an impact on our results for 2019. External demands, significant industry disruption caused by the Royal Commission, political uncertainty, subdued consumer confidence, reduction in lending flows as a result of tightening lending standards, low interest rates and increasing competition, and change in customer expectation in this new digital world, have all played a part.

We are proud that we have great people and partners committed to the roles they play and the communities we serve. We have a reputation in the industry of putting the customers first. A business model that stood up in an industry correction via the Royal Commission.

Our mobile lending team is made up of Michael Maloney, Darren Gray and joining us this year, Sam Biffi. We recognised that we had to adapt to customer expectations and deliver services that are convenient to customers in their time and space. Hurstbridge, Diamond Creek, Eltham and Doreen Customer Relationship Managers are now Branch Managers. Combining Mobile Lenders and Branch Manager skills together and working within a challenging economy, the group grew by $12 million, with 3 of our 5 branches increasing their total footings.

My role as Operations & Compliance Manager is to create efficiencies within the group, control staffing, coaching the leaders and ensure each branch passes compliance and engages in the community.

Business size - core business in '000.
Table shows size of book in each site in core business areas:

Branches	Deposits 2018	Deposits 2019	Growth	Lending 2018	Lending 2019	Growth	Growth %
Hurstbridge	136,774	134,539	-2,235	111,586	105,636	-5,950	-3.29
D/Creek	85,237	86,162	925	48,666	52,055	3,389	3.22
Kinglake	17,464	17,607	143	25,736	23,160	-2,576	-5.63
Eltham	63,824	74,039	10,215	58,840	60,827	1,987	9.94
Doreen/ Mernda	33,457	36,225	2,768	36,842	40,348	3,506	8.92

VCFS Ltd	2018	2019	Growth	Growth %
Deposits	336,756	348,572	11,816	3.50
Lending	281,670	282,026	356	.12
Total	**618,426**	**630,598**	**12,172**	**1.92**

This is an increase of $12 million from previous year.

Each branch is measured on 'Key Performance Indicators' and each branch has its own target aligned to each KPI.

KPI (100% YTD)

Lending:	Three branches achieved
Deposits:	Four branches achieved
General Insurance:	Two Branches achieved
Bendigo Smart Start Super:	No Branches achieved
Sandhurst Trustees	Two Branches achieved

As challenging as the external factors were, this did not stop staff from making our customers and their needs a priority. With the correct holistic conversations, each branch can have positive effects on these KPI's.

General Insurance sales of 352 against a group target of 360 = 98%.

Compliance is another important area to ensure we have and are abiding by, the controls in place against certain tasks to mitigate the risks should these not be adhered to - putting customers and us at risk. Staff work hard throughout the year to ensure their branches are compliant.

Results achieved this year:

Diamond Creek	Satisfactory
Doreen	Satisfactory
Eltham	Unsatisfactory
Hurstbridge	Satisfactory
Kinglake	Satisfactory

When Items are identified as non-compliant, I work with the Manager to address the procedures. It is a process of training and continuing improvement. Throughout this entire process, the staff have come together as 'One Team' working as a single team not only to achieve in their own sites but also to ensure they are all contributing to the group results. We welcomed two new staff members, Kylie Deeley, Customer Relationship Officer at Hurstbridge and Anita Tilley, Branch Manager at Diamond Creek, replacing Jason Dirkx. Both are locals and are demonstrating the right culture necessary for Teamwork, Performance and Integrity.

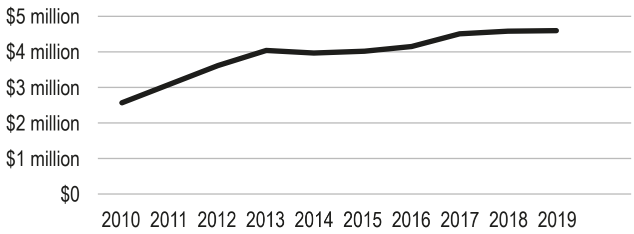
I would like to thank all the staff across the group for their continued patience and hard work throughout this process, which will continue to evolve and throw out new challenges. Their dedication to continuing to provide excellent customer service and community engagement is very much appreciated and shows in our results.

Thank you to the Board of Directors for all your assistance throughout the year. I am looking forward to another more prosperous financial year ahead, working as 'One Group'.

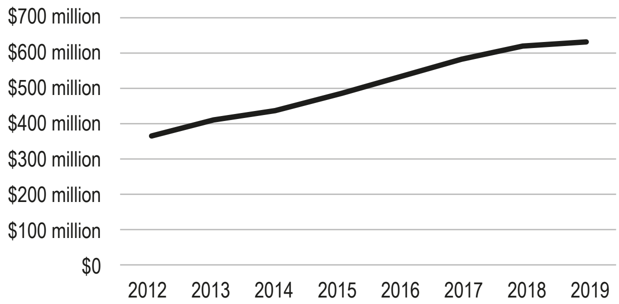
Tina Elmer
Operations & Compliance Manager

Highlights

Gross Revenue ($)



Business Size



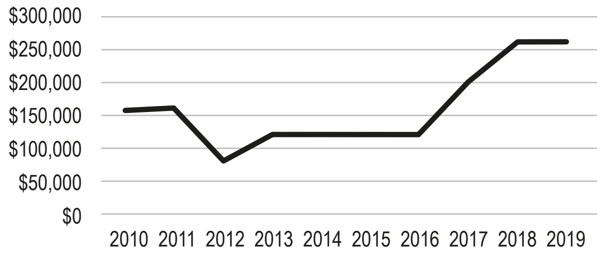
Fully Franked Dividend ($)

- $185,335 total Community Investments in 2018/2019
- 115 Groups supported in 2018/2019
- $1,959,163 total return to shareholders since 2001 (Dividend)
- $6,631,839 total Community Investments since 2001

Local Impact

- 16,386 Customers
- 605 Shareholders
- 11 Local Directors
- 32 Local Staff

Fully Franked Dividend ($)



Mobile Lending Team

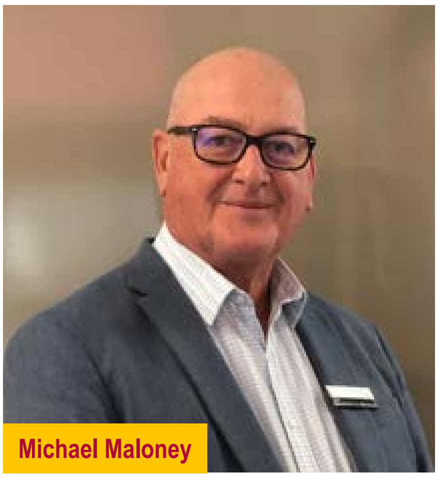
We would like to introduce to our Mobile Lending Team.

¬As part of our strategic plan, our mobile lending team is continuing to provide a service designed around our customers. The Team consists of Darren Gray, Michael Maloney and Sam Biffi. They have the local knowledge and know-how to give our customers great old-fashioned service. Our Team will come to you at your home or office.

Darren Gray

Darren is based in Hurstbridge, servicing the northern side of the group including the Kinglake Ranges. He is a specialist in lending, both home and small business and has over 30 years' banking experience.

For further enquiries, please call Darren on 0417 167 390



Michael Maloney

Michael services all areas south of Diamond Creek including Research, Eltham and Lower Plenty. Michael has over 30 years' experience in banking and being mobile at all times, makes it easier for customers to get access to products wherever they are located, day or night! The results so far have been great and the more connected to our customers we become, the better they will get.

Please contact Michael on 0413 932 771

Sam Biffi

The west side of the group's region is taken care of by our mobile lender, Sam Biffi. This area includes Doreen, Mernda and parts of Diamond Creek and Whittlesea. Sam has over 17 years' experience in banking and is passionate about providing not only a professional and friendly banking experience to customers, but the benefit of his expertise in home lending.

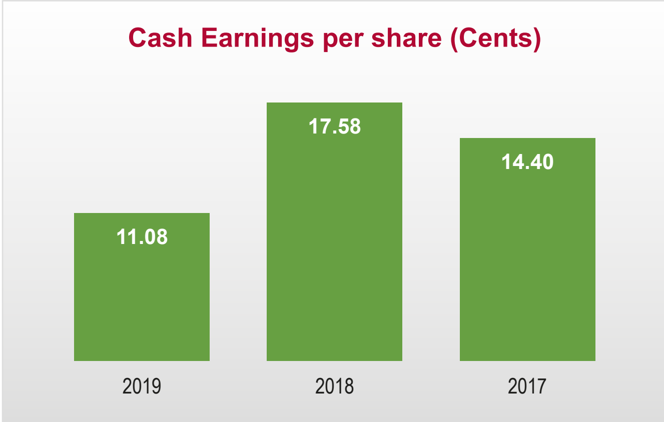
I can be contacted on 0425 711 236

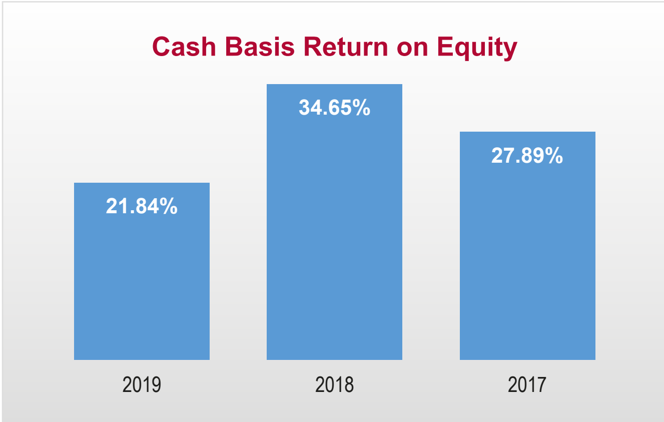
Treasurer's Report

For year ending June 30, 2019

Shareholders and stakeholders, I am pleased to report a sound result in the face of business conditions which continued to be challenging in 2019.

During 2019 the findings of the Royal Commission into Banking continued to disrupt the industry. The economy and consumer confidence stalled. We saw interest rates cut to unprecedented lows putting pressure on margins as we competed for business constrained by strict lending rules. Our response to these conditions was to direct additional expenditure to market development and additional staff. In doing so our 2019 operating result came in below 2018, however, operating revenue was maintained above the 2018 level and we delivered on financial goals set out in our 2017-2019 Strategic Plan.





Strategic financial goals delivered during 2019

During 2019 the following financial goals set out in the 2017-2019 strategic plan were advanced:

A strong balance underpins shareholder value

Our strong cash position allowed us to acquire a commercial property in the Diamond Creek shopping precinct without taking on debt. This property will provide stronger returns than deposit interest and opportunities for capital gain. Importantly we have secured a strategic presence in Diamond Creek and a solid asset backing to shareholder value.

Ensure our shareholders and the Community participate in our success

Shareholders

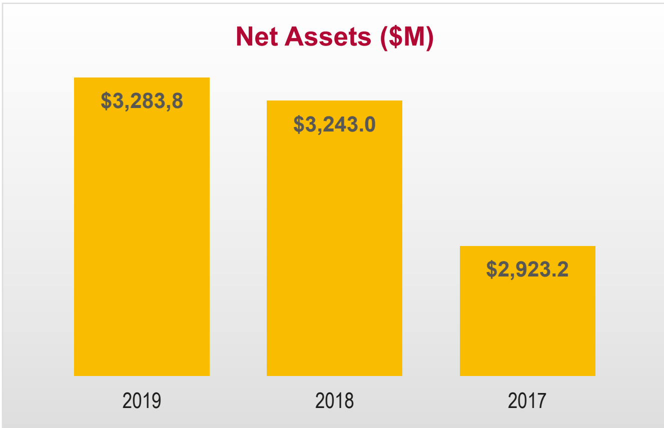
In October 2018, the Company distributed $263,373 to shareholders in a dividend of 6.5 cents per share based on the performance of the 2018 financial year.

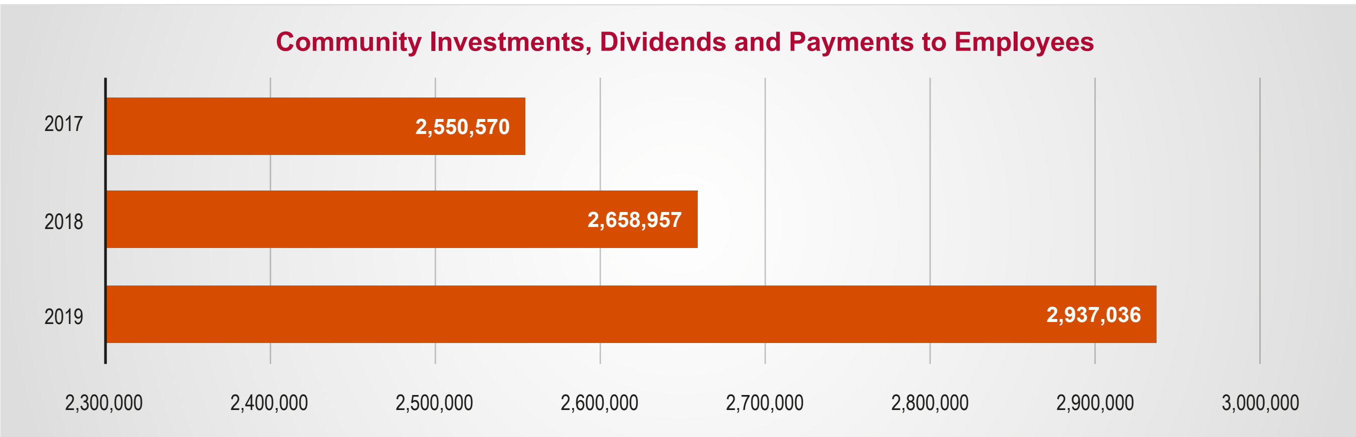
Your directors approved a dividend of 6.5 cents per share be paid for the 2019 financial year. It is anticipated this will be paid in October 2019.

Our Communities

During 2018 the Company supported 115 clubs, groups, schools and charities with $135,335 as well as depositing $50,000 in Bendigo Bank's Community Enterprise Fund for use in future Projects.

We employ locals and we support local businesses by buying goods and services from them.





Treasurer's Report (continued)

End of year adjustment to Financial Assets (Business Size)

Customer loans, deposits, financial planning and other products constitute the assets which generate our operating income. We refer to these amounts as our Business Size or Footings and regard these assets as an indicator or our business strength and sustainability of future earnings.

Adopting the recommendations of the Banking Royal Commission, Bendigo Bank sold its Financial Planning business at the end of the2019 financial year. This resulted in writing down our Financial Assets by $21.8m from $634.5m to $608.7m. We are confident that this write down will not materially impact our operating revenue in 2020 and future years.

2019 Financial highlights

The summary financial data and performance graphics which accompany this report are drawn from the audited financial statements for 2019 that are presented in the body of the 2019 annual report. I encourage you to turn to the audited financial statements for further detailed information about the Company's financial performance.

WHERE OUR MONEY COMES FROM

$IN

TOTAL
4,618,077

$7,516
OTHER REVENUE

$27,272
INTEREST & INVESTMENT DISTRIBUTION

$4,583,289
COMMISSIONS & FEES FROM FINANCIAL ASSETS

WHERE OUR MONEY IS SPENT

$OUT

OPERATIONS TOTAL
3,993,150

STAFF COSTS	**$2,488,328**
ADMINISTRATION & OPERATIONAL COSTS	**$671,590**
MARKETING, PROMOTION & NAMING RIGHTS	**$190,380**
FRANCHISE COSTS	**$67,984**
COMMUNITY CONTRIBUTIONS & SPONSORSHIPS	**$185,335**

$PROFIT

FROM OPERATIONS AFTER INCOME TAX
304,250

Phillip Burtt
Treasurer

Director's Report

The Directors present their report of the company for the financial year ended 30 June 2019.

Directors

The following persons were Directors of Valley Community Financial Services Limited during or since the end of the financial year up to the date of this report:

Malcolm Hackett OAM

Position: Chair

Professional qualifications: BA Dip. Ed.

Experience and expertise: Malcolm worked in the Victorian Education Department as a teacher, education consultant and school administrator for 34 years. He retired in 2008 having completed his career as the Principal of Diamond Valley College. Malcolm contributes his analytical and management skills, and has broad knowledge of the rural and urban communities.

Special responsibilities: Chair of Community Strengthening Committee, Chair of Policy & Procedure Committee, member of the Executive Committee, Task Force Committee, Finance Committee, Strategy Committee, Audit Committee and Confident Job Seeker Committee.

Directorships of listed companies held in the last 3 years: Director and Trustee of the Strathewen Bushfire Relief Company Limited and Strathewen Bushfire Relief Trust

Barry Henwood

Position: Director, Executive Director (Appointed 1 March 2019)

Professional qualifications: DipHort Sci, Grad Dip Acc.

Experience and expertise: Newsagent and Licensed Post Office Operator, Barry has been in small business for over 30 years. He brings to the Board a demonstrated ability to run a business and a commitment to the local area in which he lives.

Special responsibilities: Chair of Executive Committee, Task Force Committee, member of Finance Committee, Marketing Committee, Human Resources Committee, Policy & Procedure Committee, Strategy Committee and Community Strengthening Committee.

Directorships of listed companies held in the last 3 years: Nil

Phillip Burtt

Position: Treasurer

Professional qualifications: B.Economics, CPA(ASA).

Experience and expertise: Phillip is a University Administrator and a QMS consultant. Phillip has worked at La Trobe University, Bundoora for 13 years. His last role at the University was the Deputy Director, Residential Services. In this position, he was responsible for a budget in excess of $18 million, 2,238 beds across 5 locations with 33 staff.

Special responsibilities: Chair of Finance Committee, Member of Executive Committee, Audit Committee and Task Force Committtee.

Directorships of listed companies held in the last 3 years: Nil

Daryl Brooke

Position: Deputy Chair

Professional qualifications: New Zealand Certificate in Engineering Mechanical, GradDip Marketing Management, GradDip Industrial Production.

Experience and expertise: Daryl owns and operates Daryl Brooke & Associates, a business development consultancy providing intensive business coaching services - strategic and marketing planning advice, business and organisational assessment and change management guidance.

Special responsibilities: Chair of Strategy Committee, member of Confident Job Seeker Committee, Audit Committee, Policy & Procedure Committee, Marketing Committee and Task Force Committee

Directorships of listed companies held in the last 3 years: Nil

Philip Marendaz

Position: Director

Professional qualifications: FCPA, B.Comm, Grad Dip Accounting

Experience and expertise: Philip's professional career has been in accounting and commercial management with major Australian public companies. He is a fellow of the Australian CPA's, a registered tax agent and runs his own accounting and business consulting practice based in Diamond Creek.He is also a past president of the Diamond Creek Traders Association and a member of Diamond Creek Rotary.

Special responsibilities: Member of Finance, Strategy and Youth & Community Development Committees.

Directorships of listed companies held in the last 3 years: Nil

Carol Jenkinson

Position: Director

Professional qualifications: Dip Business Studies(Travel and Tourism), IATA International Travel Consultant (ITC) and Certification for Training.

Experience and expertise: Carol's background is travel and marketing and she is heavily involved in numerous groups including Hurstbridge Wattle Festival and School Council for Diamond Valley College.

Special responsibilities: Chair of Marketing Committee, Member of Events, Policy & Procedures, Community Strengthening, Strategy, Communications IT and Youth & Community Development Committees.

Directorships of listed companies held in the last 3 years: Nil

Carole Bury

Position: Director

Professional qualifications: -

Experience and expertise: Carole has worked as an Executive Assistant managing travel and logistics for multimillion dollar projects in the mining industry.

Special responsibilities: Chair of Human Resources Committee, Chair of Events Committee and Chair of Audit Committee. Member of Executive Committee.

Directorships of listed companies held in the last 3 years: Nil

Rob Charlesworth

Position: Director

Professional qualifications: -

Experience and expertise: Rob was the Government & Community Engagement Manager for Scouts Victoria. This involved project managing the implementation of Scouts Victoria's growth strategy. Rob has been involved with Scouts Victoria as a Volunteer Leader and employee for over 30 years.

Special responsibilities: Chair of Confident Job Seeker Committee, member of Community Strengthening Committee.

Directorships of listed companies held in the last 3 years: Nil

Michael McBrien

Position: Director

Professional qualifications: Bachelor of Management

Experience and expertise: Michael is the Project Manager for Total Communications Aust Pty Ltd where he manages accounts, projects and staff.

Special responsibilities: Member of Human Resources Committee and Audit Committee.

Directorships of listed companies held in the last 3 years: Nil

Gill Di Pasquale

Position: Director

Professional qualifications: Bachelor of Business Management and has completed further studies in Graphic Design and Digital Marketing

Experience and expertise: Gill is the owner/director of Gigliola Boutique in Diamond Creek, a business which has been established for over 11 years.

Gill's experience in retail management, business development, social media, event planning and marketing is beneficial to the Board. She is also a member of the Diamond Creek Traders Association.

Special responsibilities: Member of Task Force Committee, Marketing Committee, Events Committee and Community Strengthening Committee.

Directorships of listed companies held in the last 3 years: Nil

Greg Paull

Position: Director

Professional qualifications: Bachelor of Business (Accounting}, CPA

Experience and expertise: Greg is a registered builder and a Director of Transform Homes, a local construction company. He is an active member of the Rotary Club of Diamond Creek where he was President from 2015 to 2016. Greg lives in Yarrambat and has previously lived and worked overseas in a number of roles.

Special responsibilities: Member of Finance Committee and Task Force Committee.

Directorships of listed companies held in the last 3 years: Nil

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

Directors' Meetings

Attendances by each Director during the year were as follows:

Director	Board Meetings	Audit	Policy	HR	Community Strengthening	Task Force	Finance
Malcolm Hackett, OAM	12(12)	9(9)	10(10)	1(1)	2(2)	9(10)	5(5)
Barry Henwood	9(12)	N/A	5(10)	4(5)	2(2)	8(10)	6(8)
Phillip Burtt	12(12)	9(9)	N/A	N/A	2(2)	5(10)	8(8)
Daryl Brooke	11(12)	3(9)	6(10)	N/A	1(2)	4(10)	N/A
Philip Marendaz	12(12)	N/A	N/A	N/A	N/A	8(10)	8(8)
Carol Jenkinson	11(12)	N/A	10(10)	N/A	1(2)	N/A	N/A
Carole Bury	10(12)	7(9)	N/A	4(5)	1(2)	N/A	N/A
Rob Charlesworth	11(12)	N/A	N/A	N/A	2(2)	N/A	N/A
Michael McBrien	11(12)	8(9)	N/A	4(5)	2(2)	N/A	N/A
Gill Di Pasquale	10(12)	N/A	N/A	N/A	2(2)	2(6)	N/A
Greg Paull	12(12)	N/A	N/A	N/A	1(2)	10(10)	8(8)

The number of meetings eligible to attend is in brackets (#).
The number of meetings attended is the first number.
N/A *- not a member of that committee.*

Company Secretary

Melissa Vickrage has been the Company Secretary of Valley Community Financial Services Limited since 2013. Melissa's qualifications and experience include having a strong legal background working for many years as a Legal Assistant/Paralegal with a major Melbourne law firm. Melissa attends and completes sessions operated by the Governance Institute of Australia. These include Duties of Officers and Directors and Governance Essentials.

Principal activities

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

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

Review of operations

The profit of the company for the financial year after provision for income tax was $304,250 (2018 profit: $522,408), which is a 41.8% decrease as compared with the previous year.

Revenue held firm in a difficult market; $4,618,077 compared with $4,605,479 for the previous year. Operating expenses of $3,993,150 were $291,273 above the previous year of $3,641,877 due to the decision to increase mobile lending resources and spending on sales training and marketing to improve skills and reach to meet the demands of the changing market place.

Dividends

A fully franked final dividend of 6.5 cents per share was declared and paid during the year for the year ended 30 June 2018. No dividend has been declared or paid for the year ended 30 June 2019 as yet.

Options

No options over issued shares were granted during or since the end of the financial year and there were no options outstanding as at the date of this report.

Significant changes in the state of affairs

During the reporting period the company acquired Commercial property at 1/72 Main Hurstbridge Road, Diamond Creek. The acquisition was an initiative of the company's 2017-2020 strategic plan to secure the future of banking presence in Diamond Creek.

Events subsequent to the end of the reporting period

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

Likely developments

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

Environmental regulations

The company is not subject to any significant environmental regulation.

Indemnifying Officers or Auditor

The company has agreed to indemnify each Officer (Director, Secretary or employee) out of assets of the company to the relevant extent against any liability incurred by that person arising out of the discharge of their duties, except where the liability arises out of conduct involving dishonesty, negligence, breach of duty or the lack of good faith. The company also has Officers Insurance for the benefit of Officers of the company against any liability occurred by the Officer, which includes the Officer's liability for legal costs, in or arising out of the conduct of the business of the company or in or arising out of the discharge of the Officer's duties.

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.

Proceedings on behalf of company

No person has applied for leave of court to bring proceedings on behalf of the company or 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 any part of those proceedings. The company was not a party to any such proceedings during the year.

Director’s Report (continued)

Auditor independence declaration

A copy of the Auditor’s independence declaration as required under section 307C of the *Corporations Act 2001* is set at page 8 of this financial report. No Officer of the company is or has been a partner of the Auditor of the company.

Signed in accordance with a resolution of the Board of Directors at Diamond Creek on 25 September 2019.

Malcolm Hackett OAM - Board Chair

Auditor’s Independence Declaration

rsd Audit

41A Breen Street
Bendigo, Victoria
PO Box 448, Bendigo, VIC, 3552

Ph: (03) 4435 3550
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www.rsdaudit.com.au

Auditors Independence Declaration under section 307C of the *Corporations Act 2001* to the Directors of Valley Community Financial Services Limited.

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2019 there have been no contraventions of:

(i) The auditor independence requirements set out in the *Corporations Act 2001* in relation to the audit; and

(ii) Any applicable code of professional conduct in relation to the audit.

RSD Audit
Chartered Accountants

Kathie Teasdale
Partner
41A Breen Street
Bendigo VIC 3550

Dated: 26 September 2019

Richmond Sinnott & Delahunty, trading as RSD Audit
ABN 85 619 186 908
Liability limited by a scheme approved under Professional Standards Legislation

Financial Statements

These financial statements should be read in conjunction with the accompanying notes.

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2019

	Note	2019 - $	2018 - $
REVENUE	2		
EXPENSES			
Employee benefits expense	3	(2,488,328)	(2,217,392)
Depreciation and amortisation	3	(194,171)	(198,281)
Finance costs	3	(129)	(80)
Loss on disposal of property, plant &equipment	3	-	(1,229)
Bad and doubtful debts expense	3	(4,145)	(6,112)
Auditors' remuneration	3	(12,167)	(12,058)
Administration and general costs		(380,748)	(371,804)
Occupancy expenses		(574,868)	(550,212)
IT expenses		(162,753)	(154,887)
Marketing and promotion		(122,396)	(93,773)
Other expenses		(53,445)	(36,049)
		(3,993,150)	(3,641,877)
Operating profit before charitable donations and sponsorships		**624,927**	**963,602**
Charitable donations and sponsorships		(185,335)	(238,971)
Profit before income tax		**439,592**	**724,631**
Income tax expense	4	(135,342)	(202,223)
PROFIT FOR THE YEAR AFTER INCOME TAX		**304,250**	**522,408**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**304,250**	**522,408**
Profit attributable to members of the company		304,250	522,408
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO MEMBERS OF THE COMPANY		**304,250**	**522,408**
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company (cents per share):		**¢**	**¢**
Basic earnings per share	19	7.51	12.89

Statement of Financial Position as at 30 June 2019

	Note	2019 - $	2018 - $
ASSETS			
Current assets			
Cash and cash equivalents	5	365,673	953,848
Trade and other receivables	6	371,477	351,625
Financial assets	7	578,862	1,211,566
Current tax asset	4	44,621	-
Other assets	8	67,714	72,050
TOTAL CURRENT ASSETS		**1,428,347**	**2,589,089**
Non-current assets			
Property, plant and equipment	9	758,775	783,542
Intangible assets	10	284,975	427,947
Investment property	11	1,302,041	-
Deferred tax assets	4	41,514	63,251
TOTAL NON-CURRENT ASSETS		**2,387,305**	**1,274,740**
TOTAL ASSETS		**3,815,652**	**3,863,829**
LIABILITIES			
Current liabilities			
Trade and other payables	12	263,954	221,898
Current tax liability	4	-	84,888
Borrowings	13	8,908	5,758
Provisions	14	227,617	205,992
Total current liabilities		**500,479**	**518,536**
Non-current liabilities			
Trade and other payables	12	-	72,225
Borrowings	13	-	8,909
Provisions	14	31,316	21,179
Total non-current liabilities		**31,316**	**102,313**
TOTAL LIABILITIES		**531,795**	**620,849**
Net assets		**3,283,857**	**3,242,980**
Equity			
Issued capital	15	2,055,876	2,055,876
Retained earnings	16	1,227,981	1,187,104
TOTAL EQUITY		**3,283,857**	**3,242,980**

Statement of Changes in Equity for the year ended 30 June 2019

	Note	Issued Capital $	Retained Earnings &	Total Equity $
Balance at 1 July 2018		2,055,876	1,187,104	3,242,980
Comprehensive income for the year				
Profit for the year		-	304,250	304,250
Transactions with owners, in their capacity as owners				
Dividends paid or provided	17	-	(263,373)	(263,373)
Balance at 30 June 2019		**2,055,876**	**1,227,981**	**3,283,857**
Balance at 1 July 2017		**2,055,876**	**867,290**	**2,923,166**
Profit for the year		-	522,408	522,408
Transactions with owners, in their capacity as owners				
Dividends paid or provided	17		(202,594)	(202,594)
Balance at 30 June 2018		**2,055,876**	**1,187,104**	**3,242,980**

Statement of Cash Flows for the year ended 30 June 2019

	Note	2019 - $	2018 - $
Cash flows from operating activities			
Receipts from customers		5,033,902	5,045,140
Payments to suppliers and employees		(4,368,980)	(4,162,451)
Dividends received		22,869	26,257
Interest paid		(129)	(80)
Interest received		4,402	6,835
Income tax paid		(243,114)	(203,330)
Net cash provided by operating activities	**20b**	**448,950**	**712,371**
Cash flows from investing activities			
Proceeds from sale of investments		632,704	127,210
Purchase of property, plant and equipment		(26,432)	(12,505)
Purchase of investment property		(1,302,041)	-
Purchase of intangible assets		(72,225)	(72,225)
Net cash flows used in investing activities		**(767,994)**	**42,480**
Cash flows from financing activities			
Repayment of borrowings		(5,758)	(5,349)
Dividends paid		(263,373)	(202,594)
Net cash flows used in financing activities		**(269,131)**	**(207,943)**
Net increase/(decrease) in cash held		**(588,175)**	**546,908**
Cash and cash equivalents at beginning of financial year		953,848	406,940
Cash and cash equivalents at end of financial year	**20a**	**365,673**	**953,848**

Notes to the Financial Statements for the year ended 30 June 2019

These financial statements and notes represent those of Valley Community Financial Services Limited.

Valley Community Financial Services Limited ('the company') is a company limited by shares, incorporated and domiciled in Australia.

The financial statements were authorised for issue by the Directors on 25th September 2019.

1. Summary of significant accounting policies

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The company is a for profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

The financial statements, except for cash flow information, have been prepared on an accruals basis and are based on historical costs, modified, were applicable, by the measurement at fair value of selected non current assets, financial assets and financial liabilities.

Economic dependency

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the

Community Bank® branches at Hurstbridge,Diamond Creek, Eltham,Doreen/Meranda and Kinglake.

The branches operate as a franchise of Bendigo and Adelaide Bank Limited, using the name "Bendigo Bank", the logo, and systems of operation 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.

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 Managers 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; and
- Sale techniques and proper customer relations.

(b) Impairment of assets

At the end of each reporting period, the company assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less cost to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard. Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

(c) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(d) Comparative figures

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

(e) Critical accounting estimates and judgements

The Directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company. Estimates and judgements are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The estimates and judgements that have a significant risk of causing material adjustments to the carrying values of assets and liabilities are as follows:

Estimation of useful lives of assets

The company determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and intangible assets. The depreciation and amortisation charge will increase where useful lives are less than previously

Employee provisions

Assumptions are required for wage growth and CPI movements. The likelihood of employees reaching unconditional service is estimated. The timing of when employee benefit obligations are to be settled is also estimated.

Income tax

The company is subject to income tax. Significant judgement is required in determining the deferred tax asset. Deferred tax assets are recognised only when it is considered sufficient future profits will be generated. The assumptions made regarding future profits is based on the company's assessment of future cash flows.

Impairment

The company assesses impairment at the end of each reporting period by evaluating conditions and events specific to the company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value in use calculations which incorporate various key assumptions.

(f) New and revised standards that are effective for these financial statements

With the exception of the standards below, these financial statements have been prepared in accordance with the same accounting policies adopted in the entity's last annual financial statements for the year ended 30 June 2018. Note that the changes in accounting policies specified below ONLY apply to the current period. The accounting policies included in the company's last annual financial statements for the year ended 30 June 2018 are the relevant policies for the purposes of comparatives.

AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments (2014) became mandatorily effective on 1 January 2018. Accordingly, these standards apply for the first time to this set of annual financial statements. The nature and effect of changes arising from these standards are summarised in the section below.

AASB 15 Revenue from Contracts with Customers

AASB 15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and several revenue-related interpretations. The new Standard has been applied as at 1 July 2018 using the modified retrospective approach. Under this method, the cumulative effect of initial application is recognised as an adjustment to the opening balances of retained earnings as at 1 July 2018 and comparatives are not restated.

Based on our assessment, there has not been any effect on the financial report from the adoption of this standard.

AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces AASB 139's 'Financial Instruments: Recognition and Measurement ' requirements. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for impairment of financial assets.

When adopting AASB9, the entity elected not to restate prior periods. Rather, differences arising from the adoption of AASB 9 in relation to classification, measurement, and impairment are recognised in opening retained earnings as at 1 July 2018.

Based on our assessment, other than the reclassification of financial assets, there has not been any effect on the financial report from the adoption of this standard.

(g) New accounting standards for application in future periods

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the company.

The company has decided not to early adopt any of the new and amended pronouncements. The company's assessment of the new and amended pronouncements that are relevant to the company but applicable in the future reporting periods is set out on the proceeding pages.

AASB 16: Leases (applicable for annual reporting periods commencing on or after 1 January 2019)

AASB 16:

- replaces AASB 117 Leases and some lease-related Interpretations;
- requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases;
- provides new guidance on the application of the definition of lease and on sale and lease back accounting;
- largely retains the existing lessor accounting requirements in AASB 117; and
- requires new and different disclosures about leases.

The standard will primarily affect the accounting for the company's operating leases. As at the reporting date, the company has noncancellable operating lease commitments of $391,482. It is expected that upon adoption, the company will recognise a 'right-of-use' leased assed and lease liability for approximately this value. Furthermore, the rental expenses will be replaces with depreciation and interest expenses.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The company does not intend to adopt the standard before its effective date.

(h) Change in accounting policies

Revenue

Revenue arises from the rendering of services through its franchise agreement with the Bendigo and Adelaide Bank Limited. The revenue recognised is measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts.

To determine whether to recognise revenue, the company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

Given the nature of the agreement with Bendigo and Adelaide Bank Limited, there are no performance obligations, therefore the revenue is recognised at the earlier of:

a) when the entity has a right to receive the income and it can be reliably measured; or

b) upon receipt.

Financial Instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Financial assets are classified according to their business model and the characteristics of their contractual cash flows. Except for those

trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assetsare classified as financial assets at amortised cost.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Financial assets at amortised cost

Financial assets with contractual cash flows representing solely payments of principal and interest and held within a business model of 'hold to collect' contractual cash flows are accounted for at amortised cost using the effective interest method. The company's trade and most other receivables fall into this category of financial instruments as well as deposits that were previously classified as held-to-maturity under AASB 139.

Impairment of financial assets

AASB 9's new forward looking impairment model applies to company's investments at amortised cost. The application of the new impairment model depends on whether there has been a significant increase in credit risk.

The company makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the company uses its historical experience, external indicators and forward-looking information to determine the expected credit losses on a case-by-case basis.

Financial liabilities

As the accounting for financial liabilities remains largely unchanged from AASB 139, the company's financial liabilities were not impacted by the adoption of AASB 9. However, for completeness, the accounting policy is disclosed below.

Financial liabilities include trade payables, other creditors, loans from third parties and loans from or other amounts due to related entities. Financial liabilities are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Reconciliation of financial instruments on adoption of AASB 9

The table below shows the classification of each class of financial asset and financial liability under AASB 139 and AASB 9 as at 1 July 2018:

	AASB 139 Classification	AASB 9 Classification	AASB 139 Carrying Value ($)	AASB 9 Carrying Value ($)
Financial Asset				
Trade & Other receivables	Loans and receivables	Amortised cost	351,625	351,625
Term deposits	Held to maturity	Amortised cost	1,211,566	1,211,566
Financial Liabilities				
Trade & Other receivables	Amortised cost	Amortised cost	294,123	294,123
Borrowings	Amortised cost	Amortised cost	14,667	14,667

2. Revenue

	20189 - $	2018 - $
REVENUE		
Service commissions	4,583,289	4,572,317
OTHER REVENUE		
Interest received	4,402	6,835
Distributions from investments	22,870	26,257
Other revenue	7,516	70
	34,788	33,162
TOTAL REVENUE	**4,618,077**	**4,605,479**

Revenue arises from the rendering of services through its franchise agreement with the Bendigo and Adelaide Bank Limited. The revenue recognised is measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts.

The entity applies the revenue recognition criteria set out below to each separately identifiable sales transaction in order to reflect the substance of the transaction.

Interest, distribution and other income

Interest income is recognised on an accrual basis using the effective interest rate method.

Distribution and other revenue is recognised when the right to the income has been established.

All revenue is stated net of the amount of goods and services tax (GST).

Rendering of services

As detailed in the franchise agreement, companies earn three types of revenue - margin, commission and fee income. Bendigo and Adelaide Bank Limited decide the method of calculation of revenue the company earns on different types of products and services and this is dependent on the type of business the company generates also taking into account other factors including economic conditions, inlcuding interest rates.

Core Banking Products

Bendigo and Adelaide Bank Limited identify specific products and services as 'core banking products', however it also reserves the right to change the products and services identified as 'core banking products', providing 30 days notice is given. The core banking products, as at the end of the financial year included: Fixed and Variable loans, Interest bearing deposits.

Margin

Margin is earned on all core banking products. A Funds Transfer Pricing (FTP) model is used for the method of calculation of the cost of funds, deposit return and margin. Margin is determined by taking the 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.

Commission

Commission is a fee earned on products and services sold. Depending on the product or services, it may be paid on the initial sale or on an ongoing basis.

Fee Income

Fee income is a share of 'bank fees and charges' charged to customers by Bendigo and Adeliade Bank Limited, including fees for loan applications and account transactions.

Discretionary Financial Contributions

Bendigo and Adelaide Bank Limited has made discretionary financial payments to the company, outside of the franchise agreement and in addition to margin, commission and fee income. This income received by the company is classified as "Market

Development Fund" (MDF) income. The purpose of these payments is to assist the company with local market development activities, however, it is for the board to decide how to use the MDF. Due to their discretionary nature, Bendigo and Adelaide Bank Limited may change or stop these payments at any time.

Form and Amount of Financial Return

The franchise agreement stipulates that Bendigo and Adelaide Bank Limited may change the form, method of calculation or amount of financial return the company receives. The reasons behind making a change may include, but not limited to, changes in Bendigo and Adelaide Bank Limited's revenue streams/processes; economic factors or industry changes.

Bendigo and Adelaide Bank Limited may make any of the following changes to form, method of calculation or amount of financial returns:

- A change to the products and services identified as 'core banking products and services'
- A change as to whether it pays the company margin, commission or fee income on any product or service.
- A change to the method of calculation of costs of funds, deposit return and margin and a change to the amount of any margin, commission and fee income.

A change to the method of calculation of costs of funds, deposit return and margin and a change to the amount of any margin, commission and fee income.

However, if Bendigo and Adeliade Bank Limited make any of the above changes, per the franchise agreement, it must comply with the following constraints in doing so.

a) If margin or commission is paid on a core banking product or service, Bendigo and Adelaide Bank Limited cannot change it to fee income;

b) In changing a margin to a commission or a commission to a margin on a core banking product or service, OR changing the method of calculation of a cost of funds, deposit return or margin or amount of margin or commission on a core product or service, Bendigo and Adelaide Bank Limited must not reduce the company's share of Bendigo and Adelaide Bank Limited's margin on core banking product and services when aggregated to less than 50% of Bendigo and Adelaide Bank Limited's margin on core banking products attributed to the company's retail branch operation; and

c) Bendigo and Adelaide Bank Limited must publish the change at least 30 days before making the change.

3. Expenses

	2019 - $	2018 - $
Profit before income tax includes the following specific expenses:		
Employee benefits expense		
Wages and salaries	2,135,964	1,912,426
Superannuation costs	175,953	169,590
Other costs	176,412	135,376
	2,488,328	2,217,392
Depreciation and amortisation		
Depreciation		
Leasehold improvements	23,348	23,282
Plant and equipment	17,317	23,398
Motor vehicles	10,534	11,167
	51,199	57,847
Amortisation		
Franchise fees	67,984	65,446
Community Bank Stadium naming rights	74,988	74,988
TOTAL DEPRECIATION AND AMORTISATION	**194,171**	**198,281**
Finance costs		
Interest paid	129	80
Bad and doubtful debts expenses	4,145	6,112
Loss on disposal of property, plant and equipment	-	1,229
Auditors' remuneration		
Remuneration of the Auditor, RSD Audit for:		
Audit or review of the financial report	6,000	5,850

Operating expenses

Operating expenses are recognised in profit or loss on an accruals basis, which is typically upon utilisation of the service or at the date upon which the entity becomes liable.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

Depreciation and amortisation

The depreciable amount of all fixed and intangible assets, including investment property capitalised leased assets, but excluding freehold land, is depreciated over the asset's useful life to the company commencing from the time the asset is held ready for use.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable asset are:

Class of asset	***Rate***	***Method***
Investment property	2.5%	Straight line
Leasehold improvements	4-5%	Straight line & Diminishing value
Plant and equipment	25-75%	Straight line & Diminishing value
Motor vehicles	25%	Diminishing value
Franchise fees	20%	Straight line
Stadium naming rights	10%	Straight line

Gains/losses upon disposal of non-current assets

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in profit or loss in the period in which they arise. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

Income tax

	2019 - $	**2018 - $**
a. The components of tax expense comprise:		
Current tax expense	113,605	199,036
Deferred tax expense	21,737	3,187
	135,342	202,223

b. Prima facie tax payable

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

Prima facie tax on profit before income tax at 27.5% (2018: 27.5%)	120,888	199,274
Add tax effect of:		
Non-deductible expenses	14,454	2,949
Income tax attributable to the entity	**135,342**	**202,223**
The applicable weighted average effective tax rate is	30.79%	27.91%

c. Current tax liability

Current tax relates to the following:

Current tax liabilities

Opening balance	84,888	89,182
Income tax paid	(243,114)	(203,330)
Current tax	113,605	199,036
	(44,621)	84,888

d. Deferred tax asset

Deferred tax relates to the following:

Deferred tax assets balance comprises:		
Prepayments	(17,944)	-
Accruals	8,660	-
Employee provisions	71,207	3,251
	61,923	3,251
Deferred tax liabilities comprise:		
Accrued income	678	-
Property, plant & equipment	19,731	-
	20,409	-
Net deferred tax asset	**41,514**	**63,251**

e. Deferred income tax (revenue)/expense included in income tax expense comprises:

Decrease / (increase) in deferred tax assets	1,328	3,187
(Decrease) / increase in deferred tax liabilities	20,409	-
	21,737	**3,187**

The income tax expense for the year comprises current income tax expense and deferred tax expense.

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities/assets are measured at the amounts expected to be paid to/recovered from the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Deferred income tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

5. Cash and cash equivalents

	2019 - $	**2018 - $**
Cash at bank and on hand	365,673	953,848
	365,673	**953,848**

Cash and cash equivalents include cash on hand, deposits available on demand with banks, and other short-term highly liquid investments with original maturities of three months or less.

6. Trade and other receivables

	2019 - $	**2018 - $**
Current		
Trade receivables	371,477	351,625
	371,477	**351,625**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less any provision for doubtful debts. Trade and other receivables are due for settlement usually no more than 30 days from the date of recognition.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts, which are known to be uncollectable, are written off. A provision for doubtful debts is established in accordance with the expected credit loss model, or when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the assets carrying amount and the present value of estimated cash flows, discounted at the effective interest rate. The amount of the provision is recognised on profit or loss.

Credit risk

The main source of credit risk relates to a concentration of trade receivables owing by Bendigo and Adelaide Bank Limited, which is the source of the majority of the company's income.

The following table details the company's trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as "past due" when the debt has not been settled, within the terms and conditions agreed between the company and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the company.

The balances of receivables that remain within initial trade terms (as detailed in the table below) are considered to be high credit quality.

	Gross amount $	Not past due $	Past due but not impaired			Past due and impaired $
			< 30 days $	31-60 days $	> 60 days $	
2019 Trade receivables	371,477	371,477	-	-	-	-
Total	**371,477**	**371,477**	-	-	-	-
2018 Trade receivables	351,625	351,625	-	-	-	-
Total	**351,625**	**351,625**	-	-	-	-

7. Financial assets

	2019 - $	2018 - $
Amortised cost		
Term deposits	576,862	15,338
Investments in managed funds	2,000	1,196,228
	578,862	**1,211,566**

The effective interest rate on the bank deposit was 2.30% (2018: 1.70%). This term deposit has a term of 12 months.

(a) Classification of financial assets

The company classifies its financial assets at amortised cost:

Classifications are determined by both:

- The entities business model for managing the financial asset
- The contractual cash flow characteristics of the financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, reevaluates this designation at the end of each reporting period.

(b) Measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. Cash and cash equivalents, trade and other receivables fall into this category of financial instruments as well as government bonds that were previously classified as held-to-maturity under AASB 139.

(c) Impairment of financial assets

AASB 9's impairment requirements use more forward looking information to recognise expected credit losses - the 'expected credit losses (ECL) model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVTOCI, trade receivables, contract assets recognised and measured under AASB 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

The company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

(d) Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expire 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. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

8. Other assets

	2019 - $	2018 - $
Prepayments	***65,250***	***64,923***
Accrued income	2,464	7,127
	67,714	**72,050**

Other assets represent items that will provide the entity with future economic benefits controlled by the entity as a result of past transactions or other past events.

9. Property, plant and equipment

	2019 - $	2018 - $
Leasehold improvements		
At cost	868,408	863,918
Accumulated depreciation	(222,172)	(198,824)
Written down value	646,236	665,094
Plant and equipment		
At cost	564,514	572,123
Accumulated depreciation	(496,531)	(487,177)
Written down value	67,983	84,946
Motor vehicles		
At cost	91,918	70,330
Accumulated depreciation	(47,362)	(36,828)
Written down value	44,556	33,502
Total property, plant and equipment		

At cost	1,524,840	1,506,371
Accumulated depreciation	(766,065)	(722,829)
Written down value	758,775	783,542

Plant and equipment are measured on the cost basis less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised in profit or loss. A formal assessment of recoverable amount is made when impairment indicators are present.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount of these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(a) Capital expenditure commitments

The entity does not have any capital expenditure commitments at 30 June 2019 (2018: None)

(b) Movements in carrying amounts of PP&E

	2019 - $	2018 - $
Leasehold improvements		
Opening written down value	665,094	688,376
Additions	4,490	-
Disposals	-	-
Depreciation	(23,348)	(23,282)
Closing written down value	**646,236**	**665,094**
Plant and equipment		
Opening written down value	84,946	97,068
Additions	354	12,505
Disposals	-	(1,229)
Depreciation	(17,317)	(23,398)
Closing written down value	**67,983**	**84,946**
Motor vehicles		
Opening written down value	33,502	44,669
Additions	21,588	-
Disposals	-	-
Depreciation	(10,534)	(11,167)
Closing written down value	**44,556**	**33,502**
Total property, plant and equipment		
Opening written down value	783,542	830,113
Additions	26,432	12,505
Disposals	-	(1,229)
Depreciation	(51,199)	(57,847)
Closing written down value	**758,775**	**783,542**

10. Intangible assets

	2019 - $	2018 - $
Franchise fee		
At cost	309,322	309,322
Accumulated amortisation	(224,315)	(156,331)
Written down value	85,007	152,991
Community Bank *Stadium naming rights*		
At cost	750,000	750,000
Accumulated amortisation	(550,032)	(475,044)
Written down vaule	199,968	274,956
Total intangible assets		
At cost	1,059,322	1,059,322
Accumulated amortisation	(774,347)	(631,375)
Written down value	284,975	427,947

Franchise fees and Community Bank Stadium naming rights have been initially recorded at cost and amortised on a straight line basis at a rate of 20% per annum. The current amortisation charges for intangible assets are included under depreciation and amortisation in the Statement of Profit or Loss and Other Comprehensive Income.

Movements in carrying amounts

	2019 - $	2018 - $
Franchise fee		
Opening written down value	152,991	218,437
Amortisation	(67,984)	(65,446)
Closing written down value	**85,007**	**152,991**
Community Bank *Stadium naming rights*		
Opening written down value	274,956	349,944
Amortisation	(74,988)	(74,988)
Closing written down value	**199,968**	**274,956**
Total intangible assets		
Opening written down value	427,947	568,381
Amortisation	(142,972)	(140,434)
Closing written down value	**284,975**	**427,947**

11. Investment property

	2019 - $	2018 - $
Investment property - at cost	1,302,041	-

During the 2019 year, the company purchased a commercial property as a long term investment to earn rental income and capital appreciation.

Investment property is measured initially at its cost, including transaction costs.

Subsequent to initial recognition, the company has elected to measure investment property using the cost model.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

The property rental income from the company's investment property which are leased out under operating leases, amounted to $7,649. Direct operating expenses (including repairs and maintenance) arising from the rental-generating investment properties amounted to $3,353.

Rental income is recognised on a straight line basis over the term of the lease.

Investment property is depreciated on a straight line basis at 2.5% per annum.

(a) Reconciliation of the carrying value of investment property

	2019 - $	2018 - $
Opening balance	-	-
Additions	1,302,041	-
Closing balance	1,302,041	-

(b) Fair value of investment property

As the property was purchased in the current financial year, the cost price is taken to be a reasonable estimate of the fair value of the property as at 30 June 2019.

In future reporting periods, the company will determine the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

12. Trade and other payables

	2019 - $	2018 - $
Current		
Unsecured liabilities:		
Trade creditors	159,311	129,788
Other creditors and accruals	104,643	92,110
	263,954	221,898
Non-current		
Unsecured liabilities:		
Other creditors and accruals	-	72,225
	-	72,225

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability. 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 recognising 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.

The average credit period on trade and other payables is one month.

Financial liabilities - measurement, classification and derecognition

Financial liabilities include trade payables, other creditors, loans from third parties and loans from or other amounts due to related entities. Financial liabilities are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Financial liabilities are initially measured at fair value plus transaction costs, except where the instrument is classified as "fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately. Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

13. Borrowings

	2019 - $	2018 - $
Current *Secured liabilities*		
Finance leases	8,908	5,758
	8,908	5,758
Non-current *Secured liabilities*		
Finance leases	-	8,909
	-	8,909
Total borrowings	**8,908**	**14,667**

Finance 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 recognising 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. The average credit period on trade and other payables is one month.

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 recognised as expenses in the periods in which they are incurred.

(a) Lease liabilities
Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

14. Provisions

	2019 - $	2018 - $
Current		
Employee benefits	227,617	205,992
Non-current		
Employee benefits	31,316	21,179
Total provisions	**258,933**	**227,171**

Short-term employee benefits

Provision is made for the company's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The liability for annual leave is recognised in the provision for employee benefits. All other short term employee benefit obligations are presented as payables.

Other long-term employee benefits

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurement for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The company's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the company does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

15. Share capital

	2019 - $	2018 - $
2,055,876 Ordinary shares fully paid	2,055,876	2,055,876
1,996,014 (3:1) Bonus shares issued for no consideration -		-
	2,055,876	**2,055,876**

Ordinary shares are classified as equity.

Costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(a) Movements in share capital

Fully paid ordinary shares:		
At the beginning of the reporting period	4,051,890	4,051,890
At the end of the reporting period	**4,051,890**	**4,051,890**

Ordinary shares participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held. At the shareholders' meetings each shareholder is entitled to one vote when a poll is called, or on a show of hands. The company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. All shares rank equally with regard to the company's residual assets.

(b) 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 Statement of Financial Position.

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

(i) the Distribution Limit is the greater of:

(a) 20% of the profit or funds of the company 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; and

(ii) 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 Dividend paid in 2019 was calculated using method 2.

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 can be seen in the Statement of Profit or Loss and Comprehensive Income.

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

16. Retained earnings

	2019 - $	2018 - $
Balance at the beginning of the reporting period	1,187,104	867,290
Profit/(loss) after income tax	304,250	522,408
Dividends paid	(263,373)	(202,594)
Balance at the end of the reporting period	1,227,981	1,187,104

17. Dividends paid or provided for on ordinary shares

Dividends paid or provided for during the year

Final fully franked ordinary dividend of 6.5 cents per share (2018: 5 cents) franked at the tax rate of 27.5% was paid during the 2019 year for the year ended 30 June 2018

	2019 - $	2018 - $
	263,373	202,594

A provision is made for the amount of any dividends declared, authorised and no longer payable at the discretion of the entity on or before the end of the financial year, but not distributed at balance date.

19. Earnings per share

	2019 - $	2018 - $
Basic earnings per share (cents)	7.51	12.89
Earnings used in calculating basic earnings per share	304,250	522,408
Weighted average number of ordinary shares used in calculating basic earnings per share.	4,051,890	4,051,890

Basic earnings per share

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

20. Statement of cash flows

	2019 - $	2018 - $
(a) Cash and cash equivalents balances as shown in the Statement of Financial Position can be reconciled to that shown in the Statement of Cash Flows as follows:		
Cash and cash equivalents (Note 5)	365,673	953,848
As per the Statement of Cash Flow	365,673	953,848
(b) Reconciliation of cash flow from operations with profit after income tax		
Profit after income tax	304,250	522,408
Non-cash flows in profit		
Depreciation and amortisation	194,171	198,281
Bad debts	4,145	6,112
Net loss on disposal of property, plant & equipment	-	1,229
Changes in assets and liabilities		
(Increase) / decrease in trade and other receivables	(23,998)	16,559
(increase) / decrease in prepayments and other assets	4,336	(26,311)
(Increase) / decrease in deferred tax asset	21,737	3,187
Increase / (decrease) in trade and other payables	42,056	2,246
Increase / (decrease) in current tax liability	(129,509)	(4,294)
Increase / (decrease) in provisions	31,762	(7,046)
Net cash flows from operating activities	**448,950**	**712,371**

21. Key management personnel and related party disclosures

(a) Key management personnel

Key management personnel includes any person having authority or responsibility for planning, directing or controlling the activities of the entity, directly or indirectly including any Director (whether executive or otherwise) of that company.

The totals of remuneration paid to key management personnel of the company during the year are as follows:

	2019 - $	2018 - $
Short-term employee benefits	121,582	109,070
Post-employment benefits	11,550	10,362
Total key management personnel compensation	133,132	119,432

Short-term employee benefits

These amounts include fees and benefits paid to the non-executive Chair and non-executive Directors as well as all salary, paid leave benefits, fringe benefits and cash bonuses awarded to Executive Directors and other key management personnel.

Post-employment benefits

These amounts are the current year's estimated cost of providing the company's defined benefits scheme post-retirement, superannuation contributions made during the year and post-employment life insurance benefits.

(b) Other related parties

Other related parties include close family members of key management personnel and entities that are controlled or jointly controlled by those key management personnel, individually or collectively with their close family members.

(c) Transactions with key management personnel and related parties

Other than detailed below, no key management personnel or related party has entered into any contracts with the company.

During the year, the company purchased goods and services under normal terms and conditions, from related parties as follows:

Name of related party	Description of goods / services provided	Value $
Marendaz Pty Ltd (related party of director Philip Marendaz	Accounting services	58,840

During the year, the company made donations to related party community groups of $10,445. Directors of Valley Community Financial Services Ltd are members of boards/ committee of these groups, however must declare a conflict of interest and are prohibited from voting on the decision to donate to these beneficiaries.

The Directors of Valley Community Financial Services Limited have not accepted the Bendigo and Adelaide Bank Limited's Community Bank Directors Privileges package.

(d) Key management personnel shareholdings

The number of ordinary shares in Valley Community Financial Services Limited held by each key management personnel of the company including their related parties during the financial year is as follows:

	2019	2018
Malcolm Hackett OAM	20,000	20,000
Barry Henwood	11,000	11,000
Phillip Burtt	-	-
Daryl Brooke	-	7,000
Philip Marendaz	5,000	5,000
Carol Jenkinson	-	-
Carole Bury	5,000	5,000
Rob Charlesworth	-	-
Michael McBrien	-	-
Gill Di Pasquale	-	-
Greg Paull	5,000	-
	46,000	**48,000**

Movements in key management personnel shareholdings during the year are noteed in the table above. Each share held has a paid up value of $1 and is fully paid.

(e) Other key management transactions

There has been no other transactions involving equity instruments other than those described above.

22. Community Enterprise Foundation

The Community Enterprise FoundationTM (CEF) is the philanthropic arm of the Bendigo and Adelaide Bank Group to which Community Bank® branches can make financial contributions. These contributions made by the company are included in the charitable donations and sponsorship expenditure in the Statement of Profit or Loss and Other Comprehensive Income.

During the current financial year, the company contributed funds to the Community Enterprise FoundationTM (CEF), as detailed below. These funds are held in trust by the CEF on behalf of the company and are available for distribution by grants to eligible applicants

	2019	2018
Opening Balance	426,100	319,801
Contributions	57,895	115,789
Grants Paid	(93,522)	-
Interest	7,853	6,299
GST	3,739	(10,526)
Management fees	(2,631)	(5,263)
Balance available for distribution in future periods	399,434	426,100

23. Events after the reporting period

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

24. Contingent liabilities and contingent assets

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

25. Operating segments

The company operates in the financial services sector where it provides banking services to its clients. The company operates within the Shires of Nillumbik, Whittlesea and Murrindindi, Victoria. The company has a franchise agreement in place with Bendigo and Adelaide Bank Limited who account for 100% of the revenue (2018: 100%).

26. Commitments

Operating lease commitments

	2019 - $	2018 - $
Payable:		
no later than 12 months	296,410	365,487
between 12 months and five years	95,072	383,447
Minimum lease payments	**391,482**	**748,934**

The property leases are non-cancellable leases with terms ranging from four to five years, with rent payable monthly in advance and with CPI increases each year. The amounts payable only include payables on the prime leases and not for an option period that has not yet been exercised.

Non-cancellable operating leases contracted for but not capitalised in the Statement of Financial Position.

Finance lease commitments

Finance lease liabilities are payable exclusive of GST as follows:

	2019 - $	2018 - $
Payable:		

no later than 12 months	8,951	6,150
between 12 months and five years	-	8,952
Minimum lease payments	**8,951**	**15,102**
Less future interest charges	(43)	(435)
Finance lease liability	**8,908**	**14,667**

Finance leases comprise leases of property, plant and equipment under normal commercial finance lease terms and conditions repayable over 5 years.

27. Company details

The registered office of the company is:

8B 75-77 Main Hurstbridge Road, Diamond Creek, 3089

The principle places of the business are:

808 Main Road, Hurstbridge, Vic 3099
Shop 8B, 75-77 Main Hurstbridge Road, Diamond Creek, Vic 3089
1036 Main Road, Eltham, Vic 3095
Shop 3, 101 Hazel Glen Drive, Doreen Vic 3754
Shop 4, 1 Victoria Road, Kinglake, Vic 3763

28. Financial risk management

Financial risk management policies

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established an Audit Committee which reports regularly to the Board. The Audit Committee is assisted in the area of risk management by an internal audit function.

Specific financial risk exposure and management

The main risks the company is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk and other price risk. There have been no substantial changes in the types of risks the company is exposed to, how the risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous period.

The company's financial instruments consist mainly of deposits with banks, short term investments, account receivables and payables, bank overdraft and loans. The totals for each category of financial instruments measured in accordance with AASB 9 Financial Instruments as detailed in the accounting policies are as follows:

	Note	2019 - $	2018 - $
Financial assets			
Cash and cash equivalents	5	365,673	953,848
Trade and other receivables	6	371,477	351,625
Financial assets			
term deposits	7	576,862	15,338
investment in managed funds	7	2,000	1,196,228
TOTAL FINANCIAL ASSETS		**1,316,012**	**2,517,039**
Financial liabilities			
Trade and other payables	12	263,954	221,898
Borrowings	13	8,908	14,667
TOTAL FINANCIAL LIABILITIES		**272,862**	**236,565**

(a) Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the company.

Credit risk is managed through maintaining procedures ensuring, to the extent possible, that clients and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Credit terms for normal fee income are generally 30 days from the date of invoice. For fees with longer settlements, terms are specified in the individual client contracts. In the case of loans advanced, the terms are specific to each loan.

Credit risk exposures

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period is equivalent to the carrying amount and classification of those financial assets as presented in the table above.

The company's financial instruments consist mainly of deposits with banks, short term investments, account receivables and payables, bank overdraft and loans. The totals for each category of financial instruments measured in accordance with AASB 9 Financial Instruments as detailed in the accounting policies are as follows:

The company has significant concentrations of credit risk with Bendigo and Adelaide Bank Limited. The company's exposure to credit risk is limited to Australia by geographic area.

None of the assets of the company are past due (2018: nil past due) and based on historic default rates, the company believes that noimpairment allowance is necessary in respect of assets not past due.

The company limits its exposure to credit risk by only investing in liquid securities with Bendigo and Adelaide Bank Limited and therefore credit risk is considered minimal.

(b) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company ensures it will have enough liquidity to meet its liabilities when due under both normal and stressed conditions. Liquidity management is carried out within the guidelines set by the Board.

Typically, the company maintains sufficient cash on hand to meet expected operational expenses, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

Financial liability and financial asset maturity analysis:

30 June 2019	Weighted average interest rate %	Total $	Within 1 year $	1 to 5 years $	Over 5 years $
Financial assets					
Cash and cash equivalents	0.24%	365,673	365,673	-	-
Trade and other receivables		371,477	371,477	-	-
Financial assets - term deposits	2.30%	576,862	576,862	-	-
Financial assets - managed funds		2,000	2,000		
Total anticipated inflows		**1,316,012**	**1,316,012**	**-**	**-**
Financial liabilities					
Trade and other payables		263,954	263,954	-	-
Borrowings	4.40%	8,908	8,908	-	-
Total expected outflows		**272,862**	**272,862**	**-**	**-**
Net inflow / (outflow) on financial instruments		**1,043,150**	**1,043,150**		**-**

30 June 2018	Weighted average interest rate %	Total $	Within 1 year $	1 to 5 years $	Over 5 years $
Financial assets					
Cash and cash equivalents	0.69%	953,848	953,848	-	-
Trade and other receivables		51,625	51,625	-	-
Financial assets - term deposits	2.19%	15,338	15,338	-	-
Financial assets - managed funds		1,196,228	1,196,228		
Total anticipated inflows		**2,517,039**	**2,517,039**	**-**	**-**
Financial liabilities					
Trade and other payables		221,898	221,898	-	-
Borrowings	5.46%	14,667	5,758	8,909	-
Total expected outflows		**236,565**	**227,656**	**8,909**	**-**
Net inflow / (outflow) on financial instruments		**2,280,474**	**2,289,383**	**(8,909)**	**-**

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

The primary risks the company is exposed to is interest rate risk. The company has no exposure to fluctuations in foreign currency or other price risk

Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.

The financial instruments that primarily expose the company to interest rate risk are borrowings, fixed interest securities, and cash and cash equivalents.

Taking into account past performance, future expectations, economic forecasts, and management's knowledge and experience of the financial markets, management believes the following movements are 'reasonably possible' over the next 12 months:

- A parallel shift of +/- 0.5% in market interest rates from year-end rates.

These movements will not have a material impact on the valuation of the company's financial assets and liabilities, nor will they have a material impact on the results of the company's operations.

Directors Declaration

In accordance with a resolution of the Directors of Valley Community Financial Services Limited, the Directors of the company declare that:

1. **The financial statements and notes, as set out on pages 7 to 34 are in accordance with the Corporations Act; and**
    (i) comply with Australian Accounting Standards which, as stated in accounting policy Note 1(a) to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
    (ii) give a true and fair view of the company's financial position as at 30 June 2018 and of the performance for the year ended on that date;

2. In the Directors' opinion 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 resolution is made in accordance with a resolution of the Board of Directors.

Malcolm Hackett OAM
Chair

Signed at Diamond Creek on 25 September 2019.

Valley Community Financial Services Limited ABN: 86 092 399 730 | Financial Report For the year ended 30 June 2019

Independent Auditor’s Report

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF VALLEY COMMUNITY FINANCIAL SERVICES LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

Basis for Opinion

Independence

Director's Responsibility for the Financial Report

Auditor's Responsibility

Other Information

RSD Audit
Chartered Accountants

Kathie Teasdale
Partner
Bendigo

Notes

Hurstbridge & Districts **Community Bank**® Branch
808 Main Road, Hurstbridge VIC 3099
Phone: 9718 0431 Fax: 9718 0166

Diamond Creek **Community Bank**® Branch
Shop 8/75-77 Main Hurstbridge Road, Diamond Creek VIC 3089
Phone: 9438 4133 Fax: 9438 6930

Eltham & District **Community Bank**® Branch
1036 Main Road, Eltham VIC 3095
Phone: 9439 0188 Fax: 9431 4667

Doreen & Mernda **Community Bank**® Branch
101 Hazel Glen Drive, Doreen VIC 3754
Phone: 9717 1433 Fax: 9717 1468

Kinglake branch
Shop 4/1 Victoria Road, Kinglake VIC 3763
Phone: 5786 1656 Fax: 5786 1859

Franchisee: Valley Community Financial Services Limited
Shop 8/75-77 Main Hurstbridge Road, Diamond Creek VIC 3089
Phone: 9438 3194 Fax: 9438 4960
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