



Annual Report 2017

Rye & District Community
Financial Services Limited

ABN 67 095 766 895

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

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Chairman's report

For year ending 30 June 2017

It is with great pleasure that I present this report, my second as Chairman of your company, Rye & District Community Financial Services Limited.

I am delighted to commence with the exciting news that your company was inducted into the Hall of Fame at the 2017 **Community Bank**[®] National Conference held in September. This is a prestigious award which demonstrates the esteem in which the company is held, in the eyes of our **Community Bank**[®] peers and our partner, Bendigo and Adelaide Bank. It is rich recognition of the strong leadership and business acumen of our Senior Manager Gary Sanford and his team of staff, alongside the dedication of successive Boards in capably steering our company for this past 16 years. A hearty congratulations to the team, and also to you our shareholders, for continuing to show your faith and support in our company.

Despite record-low cash rates continuing to stifle the market and curtail growth, our footings have grown from \$556.379 million as at 1 July 2016 to \$613.032 million at 30 June 2017, an increase of approximately \$56.6 million (10.18%); quite an extraordinary outcome.

I am also particularly pleased to report an after-tax profit of \$310,924, a significant gain on the previous year's profit of \$188,284. The increase in over \$122,000 is remarkable given the extremely tight market conditions in which we operate.

On the back of this continued growth and increased profit, your Board has approved a dividend for the year of 7.0 cents (\$0.0700) per share (fully franked), which will be paid on 17 November 2017.

You may have seen the recent marketing campaign roll-out from our partner, Bendigo and Adelaide Bank Limited, highlighting the positive effects of the **Community Bank**[®] model with the slogan 'Be The Change'. This advertising really highlights the difference in banking with a **Community Bank**[®] branch and is a reflection of the power of community engagement and how investment in local community, in turn can lead to local investment in our company, a truly symbiotic relationship.

This financial year, we have been able to return over \$722,000 to our Southern Mornington Peninsula community in the form of sponsorships, grants and donations which is a truly amazing achievement!

I implore you to 'Be The Change' by encouraging all of your family and friends to consider moving their banking business to one of our company's three branches at either Rye, Dromana or Rosebud. Personalised, professional banking services await, alongside the knowledge that we directly put significant profits back into our region through our community investment program.

Our continuing success is not possible without the ongoing assistance of our partner, Bendigo and Adelaide Bank Limited. We particularly appreciate the efforts of Regional Manager, Simon Sponza and Regional Community Manager, Tania Hansen, who both provide sound and respected advice and support to our management and company, respectively.

At the end of December, we farewelled Patricia Tonks, our long-standing Treasurer, who had sat on the Board since the inception of the company in 2001. Although sorely missed, she has been ably replaced by Tony Harford (who held the role of Board Administration Officer for a decade). We are indeed lucky to be served by such a hard-working and diligent Board, who always have the company and its shareholders at the forefront of every decision made.

I look forward to continuing in my role of Chairman as we move into the next financial year, and am sure that it will be another period of sustained growth and enterprise. I again acknowledge the support of our shareholders and customers in making this company the success that it continues to prove itself to be.



Vin Cheers
Chairman

Senior Manager's report

For year ending 30 June 2017

In the 15th year since opening Rye & District **Community Bank**[®] Branch, 10 years since opening Dromana **Community Bank**[®] Branch and almost four years since opening Rosebud **Community Bank**[®] Branch, we have achieved some amazing results.

As at 30 June 2017, we experienced strong growth in deposits, very good growth in loans and a decrease in Financial Planning on a consolidated basis. Our Rye **Community Bank**[®] Branch increased total accounts from 9,113 to 9,163 (+50), Dromana increased from 4,977 to 5,083 (+106), Rosebud accounts grew from 2,277 to 2,832 (+555), which meant consolidated growth in new accounts of 711, taking the combined total to 17,078. In 2016 we grew our total accounts by 617!

Our consolidated footings totalled \$613.03 million, which included total deposits at \$341.72 million and total lending at \$259.02 million. This still represents a very strong mix of business. Reported Financial Planning products under management at \$12.29 million, assisted to make up the \$613.03 million. These balances reflect a 14.44% increase in deposits and a 5.73% growth in lending across the company. The balances also reflect a 3.79% decrease in Financial Planning products under management over the year.

Rye **Community Bank**[®] Branch footings as at 30 June 2017 were \$185.13 million in deposits and \$115.82 million in lending and Financial Planning under management at \$8.73 million. Combined balances stood at \$309.68 million.

Dromana **Community Bank**[®] Branch footings as at 30 June 2017 were \$95.70 million in deposits and \$98.75 million in lending and Financial Planning under management at \$3.39 million. Combined balances stood at \$197.84 million.

Rosebud **Community Bank**[®] Branch footings as at 30 June 2017 were \$60.88 million in deposits and \$44.47 million in lending and Financial Planning under management at \$0.16 million. Combined balances stood at \$105.51 million.

The consolidated business growth of \$56.65 million against consolidated budgeted growth of \$27.40 was an outstanding result in a very competitive and difficult banking environment. Deposits grew by \$43.11 million against a budget of \$14.63 million, lending grew by \$14.02 million against a budget of \$11.83 million and Financial Planning decreased by \$0.48 million against a budget of \$0.95 million.

The 2016/17 growth results continued our history of footings growth. Since opening we have average growth of \$40.87 million every year with 2017 being one of the highest growth years we have achieved.

Board support

The Board has continued to provide the stability and leadership that I have become accustomed to since we opened. This is one of the real strengths of our company and its operations. It provides me with complete confidence and enthusiasm to continue to grow and expand the benefits of what already has been a great outcome for our customers, the community and our shareholders.

Tony Harford, our previous Board Administration Officer for 11 years, resigned from the position, effective 31 December 2016, and fortunately for our company joined our Board as a Director, taking up his appointment on 1 January 2017. I continue to rely on Tony for guidance and assistance in many of my administration dealings with Board related matters.

We welcomed Sarah Marshall as our new Board Administration Officer earlier this year and she has very quickly taken up her responsibilities in support of the Board and I.

Staff

During the 2016/17 financial year, three of our staff resigned from our company to move to new positions within Bendigo and Adelaide Bank Ltd. Penelope Leonard (Rye **Community Bank**[®] Branch Manager) resigned on 6 January 2017 to take up her new position as a Small Business Banking Manager based at Cheltenham branch. Rachael Ward (Customer Relationship Manager – Dromana **Community Bank**[®] Branch) resigned on 6 April 2017 to take up her new position as Hastings **Community Bank**[®] Branch Manager. Molly-Jean Farnham (Customer Service Office – Dromana

Senior Manager's report (continued)

Community Bank® Branch) resigned on 17 May 2017 to take up a Customer Service Officer position at Pakenham branch

This provided the opportunity to look for two new Branch Managers. We moved Julie Nolo back to manage our biggest Branch as Rye **Community Bank**® Branch Manager and after an extensive interview process employed the following new Branch Managers:

- Liz Clark: Rosebud **Community Bank**® Branch Manager
- Jeff Kimber: Dromana **Community Bank**® Branch Manager

Both commenced their new roles on 6 February 2017.

Liz Clark commenced at our Rye **Community Bank**® Branch on 5 September 2005 and had worked at all three branches and held various job titles during this time. I congratulate Liz on her appointment as Rosebud **Community Bank**® Branch Manager and am very pleased to see another of our Managers develop from within our own branch staff.

We welcomed Jeff Kimber back into banking after a few years running his own small business. Jeff has had considerable experience with Commonwealth Bank in its Branch and Business Banking areas.

With Liz Clark's promotion we welcomed Karen Dimsey to the role of Customer Relationship Manager who commenced on 6 February 2017. Karen has very quickly demonstrated her lending experience from a background in finance broking and will be a real asset to our Group.

We also promoted Melissa Bosomworth to the Customer Relationship Manager position at Dromana **Community Bank**® Branch left vacant by Rachael Ward's resignation. I congratulate Melissa on her promotion and again am very pleased to see these senior positions being filled from within our branch staff.

Two new Customer Service Officers joined our team on 5 June 2017 with the appointment of the following staff:

- Romy Sittrop; Customer Service Officer at Rye **Community Bank**® Branch
- Shannon Blake: Customer Service Officer at Dromana **Community Bank**® Branch

I welcomed both to our branch teams.

My personal support team consisted of Gemma Hodgson, Luke Sweet and Mary Hallett, who I am very grateful for all the support they provide to the Board and I every day.

Gemma commenced her Maternity Leave in December 16 and we were all very excited when Ray and Gemma welcomed the safe arriving of their beautiful daughter Ruby Mae Hodgson at 3.00am on 23 January 2017. Congratulations to both parents.

I personally thank Luke and Mary who have taken over all support roles since Gemma's Maternity Leave commenced and have worked extremely well together helping achieve the outstanding results we have.

A big thank you to Julie Nolo who has been with me since we commenced Rye **Community Bank**® Branch in 2001. She has developed her own reputation and brand in the local community and is a real face of our **Community Bank**® company in the local area.

On 9 January 2017 Christine Gray celebrated 10 years' service with our company, which I again acknowledge and thank her for being part of our achievements for over 10 years.

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

We have continued to receive strong support from our partners Bendigo and Adelaide Bank through primarily our Regional Support Teams. During the 2016/17 financial year we had the support of Regional Manager, Simon Sponza and I wish to thank him for his ongoing support of our Board, Managers and I. Through the bank's State Support structures for Lending and Operations, our branches have received ongoing assistance which has been greatly appreciated.

Senior Manager's report (continued)

Summary

The 2016/17 results and performance of the three branches, in another very challenging financial environment, with low interest rate continuing have been outstanding. I am very pleased to see the above budget growth also reflected in our increased income and profitability along with our increase in funding to the local community.

Apart from our annual sponsorship and donations budgets for local community groups which has historically been \$500,000 per annum, I have had a goal that we would be able to build up funds in Bendigo Bank's Community Enterprise Foundation™ for bigger projects. These funds, and bigger projects, would, hopefully, attract matched funding for Local, State and Federal Governments. Well the Cloverleaf Project is a perfect example.

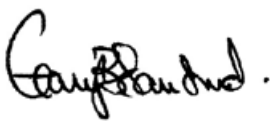
Our \$250,000 already held in the Community Enterprise Foundation™ to the Cloverleaf Project has achieved matched funding of \$1.0 million from both the State and Federal Governments. This is going to be a \$3 million disabled respite development in Rosebud that would not have occurred without our funding commitment. If you want full details of the Cloverleaf Project please drop into one of our branches to talk to our Branch Managers.

In 2017 we banked a further \$200,000 into the Community Enterprise Foundation™ for future major projects. How exciting is this?

Another exciting initiative of our company is the funding support for the "2017 Your **Community Bank**® Sports Leadership Program". As we sponsor over 50 of the local sporting clubs covering all sports we have invited each Club to nominate potential young leaders within their clubs, aged between 15 – 17 to attend a four-day live in camp at Rye. This camp will be followed by a 3-month mentoring program culminating in an "Event Day" on 10 December 2017, which will be run by these young leaders. I am very excited that 43 young leaders from these Clubs will be attending this year's first Leadership Program. I await the outcome of this program to see the benefit to each Club and also our community in assisting develop our local young leaders to achieve their potential.

I continued to be proud and very satisfied with what our Group is able to achieve year in, year out with the **Community Bank**® concept of 80% of our profits going back to support our community. That's our customers helping to build strength and stability right across the Southern Peninsula area. Last year alone we expensed \$722,000 as sponsorship and grant fundings which has taken our contribution back to our community to over \$6.1 million since 2001. This is an amazing achievement from a locally owned company.

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



Gary Sanford
Senior Manager

Directors' report

For the financial year ended 30 June 2017

Your Directors submit the financial statements of the company for the financial year ended 30 June 2017.

Directors

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

Vincent de Paul Cheers

Chairman & Director

Occupation: Managing Director

Qualifications, experience and expertise: Currently owns and operates a successful waste and recycling business on the Mornington Peninsula, employing 50-60 staff. President of Sister Francois Foundation, a voluntary not-for-profit NGO serving medical and educational needs in Papua New Guinea.

Special responsibilities: Sponsorship & Marketing Committee

Interest in shares: 28,000

Stephen Bernard Edmund

Deputy Chairman & Director

Occupation: Real Estate Agent

Qualifications, experience and expertise: 30 years experience Retail and Property Management. Currently working in real estate in the Safety Beach to Rye area. Past President of Rotary Club of Dromana and Paul Harris Fellowship. Past President of Dromana Chamber of Commerce.

Special responsibilities: Deputy Chairman

Interest in shares: 7,200

Anthony Patrick Harford

Treasurer & Director (Appointed 1st January 2017)

Occupation: Management Consultant

Qualifications, experience and expertise: 11 years Board Administration Officer for Rye & District Community Financial Services Ltd. Graduate of Company Directors Course, Australian Institute of Company Directors (AICD). Victorian Manager, AICD 2002-2005. Facilitator, AICD Governance Programs 2006 - Present. Past Commercial Manager Victoria, Qantas Airways. Past General Manager, Customer Loyalty Programs, Qantas Airways Ltd. Past CEO, Service Partners Pty Ltd. Past Customer Service and IT Executive, Diners Club International. Member RACV. Member Sorrento Golf Club.

Special responsibilities: Treasurer

Interest in shares: Nil

Dorothy Mortlock

Director

Occupation: Retiree

Qualifications, experience and expertise: President Golf Peninsula Vic, Secretary Southern Peninsula Community Fund Inc., Former President Rosebud Country Club and Committee of Handle with Care.

Special responsibilities: Audit & Governance Committee

Interest in shares: 2,890

Directors' report (continued)

Directors (supplied)

Amber Britt Earles

Director

Occupation: PHD Candidate

Qualifications, experience and expertise: BA (Melbourne), Grad. Dip. Ed (Melbourne); Master of Intl. and Community, Devpt. (Deakin), Grad. Cert. Social Impact (Swinburne). Worked in the field of community development for over a decade and currently undertaking research into social enterprise in Australia. Also a Graduate of the Australian Institute of Company Directors.

Special responsibilities: Sponsorship & Marketing Committee

Interest in shares: 2,000

Barry Leonard Irving

Director

Occupation: Retiree

Qualifications, experience and expertise: Photography & Journalism for local community groups/associations (voluntary basis), Past President of Rye Rotary Club & Paul Harris Fellow double Sapphire, Honorary Member Woodworkers of the Southern Peninsula, Member Rye RSL and 17 years experience Senior Laboratory Craftsman with C.S.I.R.O. and Volunteer member of Rye Cemetery Trust.

Special responsibilities: Sponsorship, Marketing, Promotion & Youth

Interest in shares: : 3,600

Andrew Ross Emerson

Director

Occupation: Retailer/Interior Design

Qualifications, experience and expertise: Experience in the Furnishing Industry, Member Dromana Lions Club & Past President of Dromana Primary School Council.

Special responsibilities: Property Maintenance

Interest in shares: 4,000

Gary Michael Cain

Director

Occupation: Accountant, CPA

Qualifications, experience and expertise: CPA Qualified with 37 years in Public Practice.

Special responsibilities: Finance Committee

Interest in shares: 5,000

Janet Iris Hall

Director

Occupation: Interior Decorator

Qualifications, experience and expertise: Experience and Sole Operator of Interior Decorating, Chairperson Southern Mornington Peninsula Uniting Church and Member Church Council.

Special responsibilities: Audit & Governance and Sponsorship Committee

Interest in shares: 8,800

Directors' report (continued)

Directors (continued)

Stephen Robin

Director

Occupation: Event Manager

Qualifications, experience and expertise: Masters Degree in Public Policy, 30+ years experience in Public Relations and marketing and 16 years member of Tourism Organisations.

Special responsibilities: Marketing Committee

Interest in shares: Nil

Patricia Tonks

Treasurer & Director (Resigned 31st December 2016)

Occupation: Retiree

Qualifications, experience and expertise: Former Councillor Flinders Shire, 37 years experience Business Administration and President Rye Beach Community Centre.

Special responsibilities: Finance Committee

Interest in shares: 42,236

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

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

Company Secretary

The company secretary is Sarah Marshall. Sarah was appointed to the position of secretary on 1st December 2016.

Sarah's qualifications include BA/LLB(Hons) from the University of Melbourne. Sarah has a background in corporate and commercial law in city law firms for 8 years. Sarah's special responsibilities include the Sponsorship and Marketing Committees.

Principal Activities

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

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

Operating results

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

Year ended 30 June 2017 \$	Year ended 30 June 2016 \$
285,355	188,284

Operating and financial review

Operations

Rye & District Community Financial Services Limited is a public company listed on the National Stock Exchange (NSX) and is a franchisee of the Bendigo and Adelaide Bank (BBL) operating Bendigo Bank **Community Banks®** in Rye, Rosebud and Dromana, on Victoria's Mornington Peninsula.

Established in 2001 in Rye, the company has continued to grow into a pre-eminent position among Bendigo Bank **Community Banks®** in Australia, opening its Dromana Branch 10 years ago, in 2007 – the 200th **Community Bank®** Branch in the Bendigo Bank network.

Directors' report (continued)

Operating and financial review (continued)

Operations (continued)

The company opened its 3rd branch on the Rosebud foreshore in October 2013, being the 299th branch in the **Community Bank**® network.

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

- Fees
- Margin Income
- Up Front Commissions
- Trailer Commissions
- Interest
- Market Development Fund Contributions from BBL

The rates of fees, margins and commissions are determined by BBL as specified in the Franchise Agreement and its various amendments issues from time to time, existing between BBL and the company. It is the objective of this agreement to share income from eligible products equally between the company and BBL.

As currently stands, the renewal date of the Franchise Agreement for Rosebud is 15 October 2018 and Dromana and Rye's will occur on 1 May 2021. Subject to the conditions outlined in the Franchise Agreements, there is an option for the terms of each franchise to be extended by two further five-year terms, taking the holding of the franchise to 2028 and 2031 respectively.

The year under review has continued the trend of recent years with ongoing challenging trading conditions, including, chiefly, the Reserve Bank of Australia's continued record low 1.5 percent cash rate which has remained in place since August 2016 with no signs of alteration in the foreseeable future.

Despite these challenging conditions, the funds under management (FUM) rose from \$556,379,758 as at 1 July 2016 to \$613,032,230 at 30 June 2017 – a phenomenal increase in value of 10.18% for the year.

To increase the balance of funds under management to over \$600 million is a remarkable feat, placing the company in a rare space within the **Community Bank**® network.

Loan funds recorded an increase of \$13,740,448, which represents a healthy growth of 5.74%, whilst deposits increased by a massive 14.44% (\$43,113,369 in total). This brings the overall growth across the financial year, to an incredible 10.18% - a truly commendable figure, and far exceeding the budgeted growth across all three branches.

The company continues to proudly support over 140 community organisations by way of donations, sponsorship and grants, which this year totalled to an impressive \$722 thousand. This brings total donations to the Southern Mornington Peninsula community since inception of the company, to an amount in excess of \$6.3 million.

Financial

The Company's revenue at \$3,868,843 showed a healthy increase over the 2016 result (\$3,571,717) – an extremely positive outcome given the wider economic climate in which it exists.

The company also returned a significant profit (after tax) of \$285,355 (up from 188,284 in 2016).

The after-tax profit performance of the company over the last 5 years, is shown below:

	2017	2016	2015	2014	2013
After-tax profit/(loss)	285,355	188,284	(152,904)	309,196	610,389

The company's balance sheet remains healthy, recording a total equity of \$3,521,248 compared to last year's figure of \$3,419,118. Shareholder contributed equity remained at \$1,340,732.

Directors' report (continued)

Operating and financial review (continued)

Financial (continued)

Retained earnings stood at \$1,542,077.

Given the growth in the business and despite the ongoing squeeze on margin, Directors are pleased to be able to declare a dividend for the 2017 year of \$0.07 per share, fully franked.

The rate of the fully franked dividend payments over recent years is shown below:

	2017	2016	2015	2014	2013	2012
Dividend paid per share	7.0c	6.25c	6.0c	6.0c	7.75c	7.1c
Gross dividend paid	205,212	183,224	175,896	175,896	227,199	208,144

Business Strategies

Our franchise partner, Bendigo Bank, rolled out a new revenue share model (Funds Transfer Pricing, or “FTP”)) which came into effect on 1 July 2016. A cautious review, one year on, would suggest that with our particular mix of business, the transition to the FTP revenue share model has overall, been of benefit to us as a company.

The company has enjoyed strong community support as a result of its grants, sponsorships and donations program, over many years. The streamlining of most sponsorship and grant requests into two funding “streams” per year, has proved largely successful and results in a smoother administrative process for the Company and recipients, alike.

At the direction of our partner, Bendigo Bank, our company will continue to develop its skills in ensuring that it can meet all of the financial requirements of our customers, including the provision of insurance services, wealth protection products and financial planning. Staff training remains at the heart of such success.

The Company will also work with Bendigo Bank to continue its program of staff development to ensure that appropriate succession capability is in place.

It is hoped that with the recent engagement of a dedicated marketing consultant, the Company will not only secure but increase its place in the market.

Prospects for Future Financial Years

Recent reports from Bendigo Bank indicate that the revenue share achieved by the implementation of its current margin sharing practice remains within the targeted range and it is unlikely that there will be a need to implement further change to the FTP model until, at least, the new system is bedded down.

Accordingly, income streams from the provision of BBL products and services will become much more predictable and make budgeting more realistic.

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

Your board and Bendigo Bank have approved budgets for 2017-18 year which, when achieved, are expected to deliver an extremely profitable outcome, demonstrating continued and strengthened growth.

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

Directors' report (continued)

Remuneration report

Remuneration Policy

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

Key Management Personnel Remuneration Policy

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

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

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

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

Employment agreements were entered into with key management personnel.

Remuneration Structure

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

Non-executive Director remuneration policy

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

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

Fees for non-executive Directors are not linked to the performance of the Company.

Performance based remuneration

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

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

Directors' report (continued)

Remuneration report (continued)

Performance based remuneration (continued)

The Company does not pay performance based remuneration to any Director.

Relationship between Remuneration Policy and Company Performance

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

The Senior Manager is paid a base salary, which is between \$160,000 and \$180,000 plus the use of a company car. In addition the Senior Manager receives a bonus if the company exceeds the performance criteria established by the Board. The bonus is subject to the board's review of performance and will be in the range of \$10,000 to \$15,000.

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

The following table shows the gross revenue, profits and dividends for the last six years of the entity, as well as the share price at the end of the respective financial years. Analysis of the actual figures shows excellent growth in revenue, increased payments to community groups and projects as well as consistent returns to shareholders. The company share price at the end of the 2016/2017 financial year is a reflection of the company performance and growth, as well as recognition of the strengthening of the Company's balance sheet. The board is of the opinion that these results can be attributed, in part, to the previously described remuneration policy and is satisfied with the overall trend in shareholder wealth over the past five years.

	2017	2016	2015	2014	2013	2012
Revenue	3,868,843	3,571,717	3,522,478	3,402,658	3,486,168	3,459,053
Net Profit/(Loss)	285,355	188,284	(152,904)	309,196	610,389	592,419
Share price at Year End	1.18	1	1.15	1.15	1.05	1.1
Dividend paid per share	7.0c	6.25c	6.0c	6.0c	7.75c	7.1c
Gross dividend paid	205,212	183,224	175,896	175,896	227,199	208,144

For the year ended 30 June 2017 the Directors received total remuneration including superannuation, as follows:

	\$
Vincent de Paul Cheers	20,000
Stephen Bernard Edmund	7,500
Anthony Patrick Harford (Appointed 1st January 2017)	7,500
Dorothy Mortlock	8,750
Amber Britt Earles	7,500
Barry Leonard Irving	7,500
Andrew Ross Emerson	7,500
Gary Michael Cain	7,500
Janet Iris Hall	7,500
Stephen Robin	7,500
Patricia Tonks (Resigned 31st December 2016)	7,500
	96,250

Directors' report (continued)

Remuneration report (continued)

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

	\$
Transactions with Directors	
Contractor remuneration for services as Board Administration Officer (July - December 2016)	26,000

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

Options issued as part of remuneration for the year ended 30 June 2017

No options have been issued as part of remuneration for the year ended 30 June 2017.

Employment Contracts for Directors

There are no employment contracts for Directors.

Directors' shareholdings

	Balance at start of the year	Changes during the year	Balance at end of the year
Vincent de Paul Cheers	28,000	-	28,000
Stephen Bernard Edmund	7,200	-	7,200
Anthony Patrick Harford (Appointed 1st January 2017)	-	-	-
Dorothy Mortlock	2,890	-	2,890
Amber Britt Earles	2,000	-	2,000
Barry Leonard Irving	3,600	-	3,600
Andrew Ross Emerson	4,000	-	4,000
Gary Michael Cain	5,000	-	5,000
Janet Iris Hall	8,800	-	8,800
Stephen Robin	-	-	-
Patricia Tonks (Resigned 31st December 2016)	42,236	-	42,236

Dividends

	Year ended 30 June 2017	
	Cents	\$
Final dividends recommended:	7.0c	205,212
Dividends paid in the year:		
- As recommended in the prior year report	6.25c	183,224

Directors' report (continued)

Significant changes in the state of affairs

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

Events since the end of the financial year

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

Likely developments

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

Environmental regulation

The company is not subject to any significant environmental regulation.

Indemnification and insurance of Directors and officers

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

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

Directors' meetings

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

	Directors' Meetings	
	Eligible	Attended
Vincent de Paul Cheers	14	11
Stephen Bernard Edmund	14	12
Anthony Patrick Harford (Appointed 1st January 2017)	7	7
Dorothy Mortlock	14	12
Amber Britt Earles	14	13
Barry Leonard Irving	14	12
Andrew Ross Emerson	14	12
Gary Michael Cain	14	10
Janet Iris Hall	14	12
Stephen Robin	14	13
Patricia Tonks (Resigned 31st December 2016)	7	4

Directors' report (continued)

Directors' meetings (continued)

	Committee Meetings Attended							
	Finance		Marketing		Sponsorship		Audit & Governance	
	A	B	A	B	A	B	A	B
Vincent de Paul Cheers	-	-	-	-	2	2	-	-
Stephen Bernard Edmund	-	-	-	-	-	-	-	-
Anthony Patrick Harford*	1	1	3	1	1	1	-	-
Dorothy Mortlock	-	-	-	-	-	-	3	3
Amber Britt Earles	-	-	7	7	2	2	-	-
Barry Leonard Irving	-	-	7	4	2	1	-	-
Andrew Ross Emerson	-	-	-	-	-	-	-	-
Gary Michael Cain	2	2	-	-	-	-	-	-
Janet Iris Hall	-	-	-	-	2	1	3	3
Stephen Robin	-	-	7	7	-	-	-	-
Patricia Tonks**	1	1	-	-	-	-	-	-

A - eligible to attend

* - (Appointed 1st January 2017)

B - number attended

** - (Resigned 31st December 2016)

Proceedings on behalf of the company

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

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

Non audit services

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

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

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

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

Directors' report (continued)

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 17.

Signed in accordance with a resolution of the board of directors at Dromana, Victoria on 26 September 2017.



Vincent de Paul Cheers,
Chairman

Auditor's independence declaration



Partners in success

Chartered Accountants

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

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

As lead auditor for the audit of Rye & District Community Financial Services Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

- i) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- ii) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'Andrew Frewin Stewart'.

Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550
Dated: 26 September 2017

A handwritten signature in black ink, appearing to read 'Graeme Stewart'.

Graeme Stewart
Lead Auditor

Financial statements

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2017

	Notes	2017 \$	2016 \$
Revenue from ordinary activities	4	3,868,843	3,571,717
Revaluation increment on investment property	4	-	199,696
Loss on sale of non current assets	5	(1,519)	-
Employee benefits expense		(1,860,496)	(1,750,206)
Charitable donations, sponsorship, advertising and promotion		(791,004)	(704,319)
Occupancy and associated costs		(128,070)	(132,170)
Systems costs		(199,807)	(197,372)
Depreciation and amortisation expense	5	(150,624)	(160,735)
Finance costs	5	(73,993)	(100,601)
Impairment loss on revaluation of land and buildings		-	(195,645)
General administration expenses		(234,578)	(247,706)
Profit before income tax expense		428,752	282,659
Income tax expense	6	(143,397)	(94,375)
Profit after income tax expense		285,355	188,284
Total comprehensive income for the year attributable to the ordinary shareholders of the company:		285,355	188,284
Earnings per share		¢	¢
Basic earnings per share	26	9.73	6.42

The accompanying notes form part of these financial statements.

Financial statements (continued)

Balance Sheet as at 30 June 2017

	Notes	2017 \$	2016 \$
ASSETS			
Current Assets			
Cash and cash equivalents	7	144,981	250,535
Trade and other receivables	8	365,972	301,944
Total Current Assets		510,953	552,479
Non-Current Assets			
Property, plant and equipment	9	3,951,166	4,044,021
Investment property	10	816,236	832,031
Financial assets	11	-	10,000
Intangible assets	12	115,916	159,554
Deferred tax asset	13	187,418	199,138
Total Non-Current Assets		5,070,736	5,244,744
Total Assets		5,581,689	5,797,223
LIABILITIES			
Current Liabilities			
Trade and other payables	14	146,819	225,114
Current tax liabilities	13	53,466	4,363
Borrowings	15	236,693	254,982
Provisions	16	147,037	135,633
Total Current Liabilities		584,015	620,092
Non-Current Liabilities			
Borrowings	15	1,418,134	1,699,496
Provisions	16	58,291	58,517
Total Non-Current Liabilities		1,476,425	1,758,013
Total Liabilities		2,060,440	2,378,105
Net Assets		3,521,249	3,419,118
Equity			
Issued capital	17	1,299,400	1,299,400
Reserves		679,772	679,772
Retained earnings	19	1,542,077	1,439,946
Total Equity		3,521,249	3,419,118

The accompanying notes form part of these financial statements.

Financial statements (continued)

Statement of Changes in Equity for the year ended 30 June 2017

	Issued capital \$	Reserves \$	Retained earnings \$	Total equity \$
Balance at 1 July 2015	1,299,400	-	1,427,558	2,726,958
Total comprehensive income for the year	-		188,284	188,284
Transactions with owners in their capacity as owners:				
Revaluation increment on land and buildings		679,772		679,772
Shares issued during period	-		-	-
Costs of issuing shares	-		-	-
Dividends provided for or paid	-		(175,896)	(175,896)
Balance at 30 June 2016	1,299,400	679,772	1,439,946	3,419,118
Balance at 1 July 2016	1,299,400	679,772	1,439,946	3,419,118
Total comprehensive income for the year	-		285,355	285,355
Transactions with owners in their capacity as owners:				
Shares issued during period	-		-	-
Costs of issuing shares	-		-	-
Dividends provided for or paid	-		(183,224)	(183,224)
Balance at 30 June 2017	1,299,400	679,772	1,542,077	3,521,249

The accompanying notes form part of these financial statements.

Financial statements (continued)

Statement of Cash Flows for the year ended 30 June 2017

	Notes	2017 \$	2016 \$
Cash flows from operating activities			
Receipts from customers		3,803,427	3,787,069
Payments to suppliers and employees		(3,191,791)	(3,154,066)
Interest received		1,463	2,577
Interest paid		(73,993)	(98,684)
Income taxes paid		(82,574)	(28,573)
Net cash provided by operating activities	20	456,532	508,323
Cash flows from investing activities			
Payments for property, plant and equipment		(7,496)	-
Payments for office furniture and equipment		(3,269)	(2,225)
Payments for intangible assets		(67,781)	(59,284)
Net cash used in investing activities		(78,546)	(61,509)
Cash flows from financing activities			
Proceeds from borrowings		460,000	570,620
Repayment of borrowings		(760,316)	(727,186)
Dividends paid		(183,224)	(175,896)
Net cash used in financing activities		(483,540)	(332,462)
Net increase/(decrease) in cash held		(105,554)	114,352
Cash and cash equivalents at the beginning of the financial year		250,535	136,183
Cash and cash equivalents at the end of the financial year	7(a)	144,981	250,535

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2017

Note 1. Summary of significant accounting policies

a) Basis of preparation

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

Compliance with IFRS

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

Critical accounting estimates

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

Historical cost convention

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

Comparative figures

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

Application of new and amended accounting standards

There are a number of amendments to accounting standards issued by the Australian Accounting Standards Board (AASB) that became mandatorily effective for accounting periods beginning on or after 1 July 2016, and are therefore relevant for the current financial year.

None of these amendments to accounting standards issued by the Australian Accounting Standards Board (AASB) materially affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

There are also a number of accounting standards and interpretations issued by the Australian Accounting Standards Board (AASB) that become effective in future accounting periods.

The company has elected not to apply any accounting standards or interpretations before their mandatory operative date for the annual reporting period beginning 1 July 2016. These future accounting standards and interpretations therefore have no impact on amounts recognised in the current period or any prior period.

Only AASB 16 Leases, effective for the annual reporting period beginning on or after 1 January 2019 is likely to impact the company. This revised standard will require the branch lease(s) to be capitalised.

Economic dependency - Bendigo and Adelaide Bank Limited

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

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Economic dependency - Bendigo and Adelaide Bank Limited (continued)

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

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

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

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

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

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

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

b) Revenue

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

Revenue calculation

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

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

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

b) Revenue (continued)

Core banking products

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

Margin

Margin is arrived at through the following calculation:

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

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

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

Commission

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

Fee income

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

Discretionary financial contributions

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

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

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

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

Ability to change financial return

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

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

b) Revenue (continued)

Ability to change financial return (continued)

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

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

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

Monitoring and changing financial return

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

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

c) Income tax

Current tax

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

Deferred tax

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

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

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

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

c) Income tax (continued)

Deferred tax (continued)

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

Current and deferred tax for the period

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

d) Employee entitlements

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

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

e) Cash and cash equivalents

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

f) Trade receivables and payables

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

g) Property, plant and equipment

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

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

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

g) Property, plant and equipment (continued)

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

- leasehold improvements 40 years
- plant and equipment 2.5 - 40 years
- furniture and fittings 4 - 40 years
- motor vehicles 3 - 5 years
- investment property 40 years

h) Intangibles

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

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

i) Payment terms

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

j) Borrowings

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

k) Financial instruments

Recognition and initial measurement

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

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

Derecognition

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

Classification and subsequent measurement

(i) Loans and receivables

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

(ii) Financial liabilities

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

Impairment

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

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

l) Leases

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

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

m) Provisions

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

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

n) Contributed equity

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

o) Earnings per share

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

p) Goods and Services Tax

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

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

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

Note 2. Financial risk management

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

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

Notes to the financial statements (continued)

Note 2. Financial risk management (continued)

(i) Market risk

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

(ii) Price risk

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

(iii) Credit risk

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

(iv) Liquidity risk

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

(v) Cash flow and fair value interest rate risk

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

(vi) Capital management

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

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

The distribution limit is the greater of:

- (a) 20% of the profit or funds of the franchisee otherwise available for distribution to shareholders in that 12 month period; and
- (b) subject to the availability of distributable profits, the relevant rate of return multiplied by the average level of share capital of the franchisee over that 12 month period where the relevant rate of return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period plus 5%.

The board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the year ended 30 June 2017 can be seen in the Statement of Profit or Loss and Other Comprehensive Income.

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

Note 3. Critical accounting estimates and judgements

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

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

Notes to the financial statements (continued)

Note 3. Critical accounting estimates and judgements (continued)

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

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

Taxation

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

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

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

Estimation of useful lives of assets

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

Impairment of assets

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

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

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

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

Notes to the financial statements (continued)

Note 3. Critical accounting estimates and judgements (continued)

Fair value measurement

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

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

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

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

	2017 \$	2016 \$
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Note 4. Revenue from ordinary activities

Operating activities:

- gross margin	2,974,422	2,279,243
- services commissions	434,562	757,204
- fee income	359,833	342,693
- market development fund	50,833	150,000
total revenue from operating activities	3,819,650	3,529,140

Non-operating activities:

- interest received	1,463	2,577
- rental revenue	43,636	40,000
- revaluation increment on investment property	-	199,696
- other revenue	4,094	-
Total revenue from non-operating activities	49,193	242,273
Total revenues from ordinary activities	3,868,843	3,771,413

Notes to the financial statements (continued)

	2017 \$	2016 \$
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Note 5. Expenses

Depreciation of non-current assets:

- buildings	62,157	68,555
- investment property	15,795	17,403
- motor vehicles	13,964	19,128
- office furniture and equipment	6,295	5,782
- leasehold improvements	8,776	9,818

Amortisation of non-current assets:

- franchise agreement	6,518	6,347
- franchise renewal fee	20,334	19,687
- in house software	2,785	15
- establishment fee	14,000	14,000
	150,624	160,735

Finance costs:

- interest paid	73,993	100,601
Bad debts	2,096	3,661
Impairment loss on revaluation of land and buildings	-	195,645
Loss on sale of non current assets	1,519	-

Note 6. Income tax expense

The components of tax expense comprise:

- Current tax	131,678	102,505
- Movement in deferred tax	11,719	(8,130)
	143,397	94,375

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

Operating profit	428,752	282,659
Prima facie tax on profit from ordinary activities at 27.5% (2016: 30%)	117,907	84,798
Add tax effect of:		
- non-deductible expenses	6,597	65,003
- timing difference expenses	4,898	9,346
- other deductible expenses	2,276	(56,642)
	131,678	102,505
Movement in deferred tax	11,719	(8,130)
	143,397	94,375

Notes to the financial statements (continued)

	2017 \$	2016 \$
Note 7. Cash and cash equivalents		
Cash at bank and on hand	144,981	149,235
Term deposits	-	101,300
	144,981	250,535

Note 7.(a) Reconciliation to cash flow statement

The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year as follows:

Cash at bank and on hand	144,981	149,235
Term deposits	-	101,300
	144,981	250,535

Note 8. Trade and other receivables

Trade receivables	323,538	249,585
Prepayments	42,434	52,359
	365,972	301,944

Note 9. Property, plant and equipment

Land and Buildings

At cost	3,940,001	3,940,001
Less accumulated depreciation	(128,489)	(66,332)
	3,811,512	3,873,669

Leasehold improvements

At cost	135,973	135,973
Less accumulated depreciation	(72,774)	(63,998)
	63,199	71,975

Office furniture and equipment

At cost	97,598	86,833
Less accumulated depreciation	(60,760)	(54,465)
	36,838	32,368

Motor vehicles

At cost	97,393	126,944
Less accumulated depreciation	(57,776)	(60,935)
	39,617	66,009

Total written down amount	3,951,166	4,044,021
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Notes to the financial statements (continued)

	2017 \$	2016 \$
Note 9. Property, plant and equipment (continued)		
Movements in carrying amounts:		
Land and buildings		
Carrying amount at beginning	3,873,669	3,239,327
Transfer from leasehold improvements	-	218,770
Revaluation of assets	-	484,127
Additions	-	-
Disposals	-	-
Less: depreciation expense	(62,157)	(68,555)
Carrying amount at end	3,811,512	3,873,669
Leasehold improvements		
Carrying amount at beginning	71,975	299,063
Transfer to land and buildings	-	(218,770)
Additions	-	1,500
Disposals	-	-
Less: depreciation expense	(8,776)	(9,818)
Carrying amount at end	63,199	71,975
Office furniture and equipment		
Carrying amount at beginning	32,368	37,425
Additions	10,765	725
Disposals	-	-
Less: depreciation expense	(6,295)	(5,782)
Carrying amount at end	36,838	32,368
Motor vehicles		
Carrying amount at beginning	66,009	85,137
Additions	-	-
Disposals	(12,428)	-
Less: depreciation expense	(13,964)	(19,128)
Carrying amount at end	39,617	66,009
Total written down amount	3,951,166	4,044,021

Notes to the financial statements (continued)

	2017 \$	2016 \$
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Note 10. Investment Property

Land and buildings

At cost	850,000	850,000
Less accumulated depreciation	(33,764)	(17,969)
	816,236	832,031

Movements in carrying amounts:

Land and buildings

Carrying amount at beginning	832,031	649,739
Revaluation of assets	-	199,695
Additions	-	-
Disposals	-	-
Less: depreciation expense	(15,795)	(17,403)
Carrying amount at end	816,236	832,031

Note 11. Financial assets

Loan - Edenhope & District Financial Services Limited	-	10,000
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The loan was an interest free loan with repayment of the principal originally due five years from the date of the loan agreement, being 27 March 2017. The loan was subsequently repaid on the 20th January 2017.

Note 12. Intangible assets

Franchise fee

At cost	162,164	162,164
Less: accumulated amortisation	(142,262)	(135,743)
	19,902	26,421

Establishment fee

At cost	70,000	70,000
Less: accumulated amortisation	(51,934)	(37,934)
	18,066	32,066

Renewal processing fee

At cost	199,524	199,524
Less: accumulated amortisation	(121,576)	(101,242)
	77,948	98,282

Notes to the financial statements (continued)

	Note	2017 \$	2016 \$
Note 12. Intangible assets (continued)			
In House Software			
At cost		2,800	2,800
Less: accumulated impairment losses		(2,800)	(15)
		-	2,785
Total written down amount		115,916	159,554

Note 13. Tax

Current:

Income tax payable	53,466	4,363
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Non-Current:

Deferred tax assets		
- employee provisions	57,426	59,486
- capital loss carried forward	135,110	147,392
- revaluation loss	-	58,694
	192,536	265,572
Deferred tax liability		
- deductible prepayments	5,118	6,525
- revaluation surplus	-	59,909
	5,118	66,434
Net deferred tax asset	187,418	199,138
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	11,720	(8,132)

Note 14. Trade and other payables

Current:

Trade creditors	22,890	38,086
Other creditors and accruals	123,929	187,028
	146,819	225,114

Note 15. Borrowings

Current:

Chattel mortgage	22	9,326	23,659
Bank loans		227,367	231,323
		236,693	254,982

Notes to the financial statements (continued)

	Note	2017 \$	2016 \$
Note 15. Borrowings (continued)			
Non-Current:			
Chattel mortgage	22	-	9,259
Bank loans		1,418,134	1,690,237
		1,418,134	1,699,496

Bank loans are repayable monthly. Interest is recognised at an average rate of 4.28% (2016: 4.71%). The loans are secured by a fixed and floating charge over the company's assets.

The Toyota Hi Ace chattel mortgage, which commenced in 2015, is a 3-year contract. Interest is recognised at an average rate of 5.95%

Note 16. Provisions

Current:			
Provision for annual leave		52,080	53,524
Provision for long service leave		94,957	82,109
		147,037	135,633
Non-Current:			
Provision for long service leave		58,291	58,517

Note 17. Contributed equity

2,931,605 ordinary shares fully paid (2016: 2,931,605)	1,340,732	1,340,732
Less: equity raising expenses	(41,332)	(41,332)
	1,299,400	1,299,400

Rights attached to shares

(a) Voting rights

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

On a show of hands or a poll, each member attending the meeting (whether they are attending the meeting in person or by attorney, corporate representative or proxy) has one vote, regardless of the number of shares held.

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

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

Notes to the financial statements (continued)

Note 17. Contributed equity (continued)

Rights attached to shares

(b) Dividends

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

(c) Transfer

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

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

Prohibited shareholding interest

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

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

- They control or own 10% or more of the shares in the company (the "10% limit").
- In the opinion of the board they do not have a close connection to the community or communities in which the company predominantly carries on business (the "close connection test").
- Where the person is a shareholder, after the transfer of shares in the company to that person the number of shareholders in the company is (or would be) lower than the base number (the "base number test"). The base number is 270. As at the date of this report, the company had 498 shareholders.

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

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

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

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

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

Notes to the financial statements (continued)

	2017 \$	2016 \$
Note 18. Reserves		
Asset Revaluation Reserve	679,722	679,772

Note 19. Retained earnings

Balance at the beginning of the financial year	1,439,946	1,427,558
Net profit from ordinary activities after income tax	285,355	188,284
Dividends paid or provided for	(183,224)	(175,896)
Balance at the end of the financial year	1,542,077	1,439,946

Note 20. Statement of cash flows

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

Profit from ordinary activities after income tax	285,355	188,284
Non cash items:		
- depreciation	106,987	120,686
- amortisation	43,637	40,049
- revaluation of assets net impact	-	(4,051)
- loss on sale of assets	1,519	-
Changes in assets and liabilities:		
- (increase)/decrease in receivables	(63,953)	18,233
- (increase)/decrease in other assets	21,645	65,802
- increase/(decrease) in payables	1,061	49,683
- increase/(decrease) in provisions	11,178	25,274
- increase/(decrease) in current tax liabilities	49,103	4,363
Net cash flows provided by operating activities	456,532	508,323

Note 21. Fair value measurement

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

Notes to the financial statements (continued)

Note 21. Fair value measurement (continued)

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
At 30 June 2017				
Recurring fair value measurements:				
Investment Property	-	850,000	-	850,000
Freehold land and buildings	-	3,940,000	-	3,940,000
Total assets at fair value	-	4,790,000	-	4,790,000
At 30 June 2016				
Recurring fair value measurements:				
Investment Property	-	850,000	-	850,000
Freehold land and buildings	-	3,940,000	-	3,940,000
Total assets at fair value	-	4,790,000	-	4,790,000

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

	2017 \$	2016 \$
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Note 22. Leases

Finance lease commitments

Payable - minimum lease payments:

- not later than 12 months	9,486	24,680
- between 12 months and 5 years	-	9,486
- greater than 5 years	-	-
Minimum lease payments	9,486	34,166
Less future finance charges	(160)	(1,248)
Present value of minimum lease payments	9,326	32,918

The Toyota Hi Ace chattel mortgage, which commenced in 2015, is a 3-year contract. Interest is recognised at an average rate of 5.95%.

Note 23. Auditor's remuneration

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

- audit and review services	7,250	7,605
	7,250	7,605

Notes to the financial statements (continued)

Note 24. Director and related party disclosures

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

Vincent de Paul Cheers
Stephen Bernard Edmund
Anthony Patrick Harford (Appointed 1st January 2017)
Dorothy Mortlock
Amber Britt Earles
Barry Leonard Irving
Andrew Ross Emerson
Gary Michael Cain
Janet Iris Hall
Stephen Robin
Patricia Tonks (Resigned 31st December 2016)

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

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

In accordance with Board policy, director remuneration comprises a base fee together with a 9.5% superannuation guarantee charge.

Directors fees are determined by the Board and are not to exceed \$100,000 in aggregate, the allocation of which is determined at the discretion of the Board. This policy was approved by the shareholders at the 2007 Annual General Meeting held 31 October 2008.

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

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

	2017 \$	2016 \$
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Note 25. Dividends paid or provided

a. Dividends paid during the year

Prior year proposed final		
100% (2016: 100%) franked dividend - 6.25 cents (2016: 6.0 cents) per share	183,225	175,896

b. Dividends proposed and not recognised as a liability

Current year final dividend		
100% (2016: 100%) franked dividend - 7.0 cents (2016: 6.25 cents) per share	205,212	183,225

The tax rate at which dividends have been franked is 27.5% (2016: 30%).

Dividends proposed will be franked at a rate of 27.5% (2016: 30%).

Notes to the financial statements (continued)

	2017 \$	2016 \$
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Note 25. Dividends paid or provided (continued)

c. Franking account balance

Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	939,783	926,707
- franking credits that will arise from payment of income tax as at the end of the financial year	27,104	16,493
- franking debits that will arise from the payment of dividends recognised as a liability at the end of the financial year	-	-
Franking credits available for future financial reporting periods:	966,887	943,200
- franking debits that will arise from payment of dividends proposed or declared before the financial report was authorised for use but not recognised as a distribution to equity holders during the period	(77,839)	(78,525)
Net franking credits available	889,048	864,675

Note 26. Earnings per share

(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	285,355	188,284
	Number	Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	2,931,605	2,931,605

Note 27. Events occurring after the reporting date

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

Note 28. Contingent liabilities and contingent assets

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

Note 29. Segment reporting

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

Notes to the financial statements (continued)

Note 30. Registered office/Principal place of business

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

Registered Office

Rye & District Community Financial Services Ltd
2271 Point Nepean Road
Rye Vic 3941

Principal Place of Business

Rye & District Community Financial Services Ltd
2271 Point Nepean Road
Rye Vic 3941

Rye & District Community Financial Services Ltd
239 Point Nepean Road
Dromana Vic 3936

Rye & District Community Financial Services Ltd
1087-1089 Point Nepean Road
Rosebud Vic 3939

Note 31. Financial instruments

Financial Instrument Composition and Maturity Analysis

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

Financial instrument	Floating interest		Fixed interest rate maturing in						Non interest bearing		Weighted average	
			1 year or less		Over 1 to 5 years		Over 5 years					
	2017 \$	2016 \$	2017 \$	2016 \$	2017 \$	2016 \$	2017 \$	2016 \$	2017 \$	2016 \$	2017 %	2016 %
Financial assets												
Cash and cash equivalents	144,301	148,560	10	101,300	-	-	-	-	670	675	0.61	0.69
Receivables	-	-	-	-	-	-	-	-	323,538	249,585	N/A	N/A
Financial liabilities												
Interest bearing liabilities	-	-	236,693	254,982	-	9,259	1,418,134	1,690,237	-	-	4.36	4.71
Payables	-	-	-	-	-	-	-	-	22,890	38,086	N/A	N/A

Net Fair Values

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

Credit Risk

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

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

Notes to the financial statements (continued)

Note 31. Financial instruments (continued)

Interest Rate Risk

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

Sensitivity Analysis

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

As at 30 June 2017, the effect on profit and equity as a result of changes in interest rate, with all other variables remaining constant would be as follows:

	2017 \$	2016 \$
Change in profit/(loss)		
Increase in interest rate by 1%	(15,105)	(17,046)
Decrease in interest rate by 1%	(15,105)	(17,046)
Change in equity		
Increase in interest rate by 1%	(15,105)	(17,046)
Decrease in interest rate by 1%	(15,105)	(17,046)

Directors' declaration

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

In the opinion of the directors:

- (a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- (c) the audited remuneration disclosures set out in the remuneration report section of the directors' report comply with Accounting Standard AASB124 Related Party Disclosures and the Corporations Regulations 2001.

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



Vincent de Paul Cheers,
Chairman

Signed on the 26th of September 2017.

Independent audit report



Partners in success

Chartered Accountants

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

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

Report on the audit of the financial statements

Our opinion

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

- i. giving a true and fair view of the company's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
- ii. complying with Australian Accounting Standards.

What we have audited

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

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

Basis for opinion

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

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

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

Other information

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

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

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Independent audit report (continued)

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

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

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

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2017. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Rye & District Community Financial Services Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Key audit matters

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

There are no key audit matters to disclose for the 30 June 2017 audit.

Directors' responsibility for the financial report

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

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

Auditor's responsibility for the audit of the financial report

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

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



Andrew Frewin Stewart
61 Bull Street, Bendigo, 3550
Dated: 26 September 2017



Graeme Stewart
Lead Auditor

NSX report

Share information

In accordance with National Stock Exchange of Australia listing rules, the company provides the following information as at 28 September 2017, which is within 6 weeks of this report being sent to shareholders.

The following table shows the number of shareholders, broken into various categories showing the total number of shares held.

Number of shares held	Number of shareholders
1 to 1,000	85
1,001 to 5,000	293
5,001 to 10,000	63
10,001 to 100,000	56
100,001 and over	1
Total shareholders	498

Each of the above shareholders is entitled to 1 vote, irrespective of the number of shares held.

There are no substantial shareholders (holding more than 5% of voting rights) as each shareholder is entitled to 1 vote. Normally holding more than 5% of total issued shares would create a substantial shareholder, but this is not applicable due to the voting restrictions for the company.

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

There are no restricted securities on issue.

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

The following table shows the 11 largest shareholders.

Shareholder	Number of Shares	Percentage of capital
Planned Living Pty Ltd <Superannuation Fund A/C>	101,000	3.45
Thomas Leigh ATF The Waring Superannuation Fund	86,000	2.93
Shirley Janette Wilding & Erik Anthony Hansen <Superannuation Fund A/C>	64,810	2.21
John Leonard Seeber	60,000	2.04
Fund Raising Management Services Pty Ltd As Trustee For <Trevorrow Superannuation Fund A/C>	46,003	1.57
Eileen Naylor	44,000	1.50
Bernard Wilfred & Patricia Tonks	42,236	1.44
Kadan Superannuation Pty Ltd	39,195	1.34
Louise Rose Whitehead	35,088	1.20
Richard Gorman & Marilla Gorman As Trustee For <Gorman Super Fund A/C>	34,000	1.15
Est Of The Late Pamela Ann Lloyd	32,000	1.09
	584,332	19.92

NSX report (continued)

Registered Office and principal administrative office

The registered office of the company is located at:

2271 Point Nepean Road
Rye, Victoria 3941
Phone: 03 5985 9755

The principal administrative office of the company is located at:

239 Point Nepean Road
Dromana, Victoria 3936
Phone: 03 5987 0754

Security register

The security register (share register) is kept at:

Richmond Sinnott Delahunty Pty Ltd
Level 2
10-16 Forest Street
BENDIGO VIC 3552
Phone: (03) 5443 1177

Company Secretary

The Company Secretary is Sarah Marshall who was appointed to the position of Company Secretary on 1 December 2016.

Corporate Governance

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

- (a) The establishment of an Audit & Governance Committee
- (b) Director approval of operating budgets and monitoring of progress against these budgets;
- (c) Ongoing Director training; and
- (d) Monthly Director meetings to discuss performance and strategic plans.

Annexure 3A

There are no material differences between the information in the company's Annexure 3A and the information in the financial documents in its annual report.

2016/17 Sponsorships

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

Art Red Hill (Red Hill Consolidated School)	\$1,000
Arthurs Seat Challenge - Fit2Drive Frankston & Mornington Peninsula Assoc	\$10,000
Association for Building Community in Dromana Inc	\$500
Australian Volunteer Coast Guard Association	\$3,600
BirdLife Mornington Peninsula	\$500
Boneo Baseball & Softball Club Incorporated	\$1,000
Boneo Rural Fire Brigade	\$8,000
Boneo Tennis Club	\$5,000
Caroline Chisholm Education Foundation	\$15,000
Carrington Park Ladies' Golf Club	\$500
Community Enterprise Foundation	\$200,000
Dreamhouse Theatre Company	\$2,000
Dromana Australia Day Committee	\$5,000
Dromana Bowls Club	\$3,000
Dromana College	\$2,000
Dromana College Parents and Friends	\$2,500
Dromana Cricket Club	\$1,000
Dromana Fire Brigade (CFA)	\$8,000
Dromana Football & Netball Club	\$10,000
Dromana Foreshore Committee of Management Inc	\$500
Dromana Junior Football/Netball Club	\$3,000
Dromana Potters Group Inc	\$1,000
Dromana Social Golf Club Inc	\$1,000
Dromana Tennis Club	\$800
Dromana TOWN Club	\$500
Dromana Valley Probus Club	\$500
Eastbourne Primary School	\$4,000
Flinders Bowls Division Inc	\$3,000
Food for All	\$2,400
HeadQuarters Australia (Game Changers)	\$25,000
Ingham Growers Association	\$1,500

Janice Earth Community	\$1,000
Light Up Autism Foundation	\$10,000
Lions Club of Flinders & District	\$2,000
Main Ridge Bowls and Petanque Club Inc	\$3,000
Main Ridge Cricket Club	\$1,000
Main Ridge Tennis Club	\$1,000
Mary's Van	\$2,800
McCrae Yacht Club	\$2,500
Mornington Peninsula TPI Social Club	\$500
Mornington Peninsula Veterans Golf Association Inc	\$500
Nepean Camera Club	\$2,200
Nepean Friends of Hospice	\$2,000
Nepean Netball Association	\$5,000
Red Hill Consolidated School	\$4,000
Red Hill District Lions Club	\$1,000
Red Hill Football Netball Club	\$10,000
Red Hill Junior Football/Netball Club (Netball Division)	\$500
Red Hill Rural Fire Brigade	\$8,000
Rosebud Australia Day Association Inc	\$5,000
Rosebud Bowls Club Inc	\$3,000
Rosebud Country Club Bowls Division	\$3,000
Rosebud Cricket Club Inc	\$1,000
Rosebud Football Netball Club	\$10,000
Rosebud Heart Soccer Club	\$2,500
Rosebud Italian Club Inc	\$2,000
Rosebud Junior Football Club	\$3,000
Rosebud Netball Club Inc	\$1,000
Rosebud Over 50's Social Club	\$1,000
Rosebud Park & Recreation Reserve Committee of Management	\$1,000
Rosebud Primary School	\$8,000
Rosebud Rock n' Rods Festival	\$500
Rosebud Scout Group	\$1,000
Rosebud Soccer Club	\$2,500
Rosebud Urban Fire Brigade	\$8,000

2016/17 Sponsorships (continued)

Rotary Club of Dromana	\$2,000
Rotary Club of Sorrento	\$2,000
Royal District Nursing Service	\$17,600
Rye Australia Day Celebrations	\$5,000
Rye Beach Community Centre	\$1,000
Rye Bowls Club	\$3,000
Rye Cemetery Trust	\$5,000
Rye Community House Inc	\$2,000
Rye Cricket Club	\$1,000
Rye Football Netball Club	\$10,000
Rye Junior Football Club	\$3,000
Rye Netball Club	\$1,000
Rye Pre School	\$2,000
Rye Sports and Social Club	\$5,000
Rye Tennis Club	\$1,000
Rye Yacht Club	\$2,500
Rye Youth Services (YMCA)	\$50,000
Safety Beach Sailing Club	\$2,500
Safety Beach-Dromana Men's Shed Inc	\$2,000
Singing for Wellness - Rosebud	\$2,500
Sorrento Bowls Club	\$3,000
Sorrento Community Centre	\$5,000
Sorrento Cricket Club	\$1,000
Sorrento Football Netball Club Inc	\$10,000
Sorrento Kindergarten	\$2,000
Sorrento Netball Club	\$1,000
Sorrento Primary School	\$8,000

Southern Mornington Peninsula Uniting Church - Playgroups	\$1,500
Southern Peninsula Cancer Support Centre	\$12,000
Southern Peninsula Community Support & Information Centre	\$10,000
Southern Peninsula Indoor Bias Bowls Association	\$400
Southern Peninsula Little Athletics Centre	\$2,000
Southern Peninsula Trim and Slim Club	\$500
Spark Youth Dance Company	\$5,000
St Andrews Beach Petanque Club	\$500
St Mark's Anglican Church	\$500
St Vincent De Paul - Rye Conference	\$4,000
The Dunes Golf Club	\$1,000
The Lions Club of McCrae & District	\$1,750
The Portsea Camp	\$5,500
The Village Glen Bowls Club	\$3,000
The Village Glen Croquet Club	\$500
The Village Glen Fidelity Club	\$500
The Village Glen Golf Club	\$2,500
Tootgarook Netball Club	\$1,000
Tootgarook Primary School	\$30,000
U3A Southern Peninsula Inc	\$1,625
Vinnies Kitchen	\$4,800
Woodworkers of the Southern Peninsula	\$2,000

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

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

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

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

Share Registry:
Richmond Sinnott & Delahunty
Attention: Di Brooks
10-16 Forest Street, Bendigo VIC 3550
Postal Address:
PO Box 30, Bendigo VIC 3552
Phone: (03) 5445 4200 Fax: (03) 5444 4344
Email: shareregistry@rsdadvisors.com.au
www.rsdadvisors.com.au

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