

# KU-RING-GAI FINANCIAL SERVICES LIMITED

ABN 56 103 129 184

## ANNUAL REPORT 2016

Turramurra and Lindfield  
**Community Bank®** branches



**Bendigo Bank**







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Cover: Branch staff (from left): Michele Ferris, Murray McDonnell, Diana Smith, Dean Castell (Manager), Brenda Naylor, Annie Dobe, Karen Chivas, Alex Milford and Vikki Atkins.

# Chairman's report

It is my pleasure as the chairman of Ku-ring-gai Financial Services Limited to report on the company's progress during the year ended 30 June 2016.

The past year has been one of considerable change. We saw the retirement of our previous Chair Dina Coppel, and two of our long serving directors, Peter Millard and Ian Langford-Brown. We have welcomed a new director and company secretary, Toni MacDermott. In addition, Rowenna Walker was appointed a director in August 2016. The major business transition effort with our partners Bendigo Bank called *Project Horizon* has been completed with the new revenue sharing arrangements commencing 1 July 2016. In the branch we have welcomed Dean Castell who stepped in as Manager for both Lindfield and Turramurra **Community Bank®** branches.

It has also been a period of continued record low interest rates proving challenging for both revenue generation and portfolio growth as the property market softens.

## Operating results

The company's financial results cover the operations of the Turramurra and Lindfield **Community Bank®** branches. During the financial year ended 30 June 2016, the company continued to grow the banking business portfolio to \$335.3 million, which was an increase of \$20.5 million or 6.5% on the prior year (see Graph 1).

Over \$117 million of this banking business comprises loans, whether home, business, investment



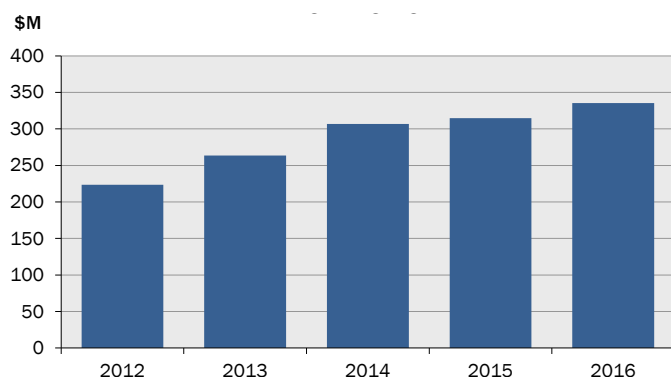
David Pegley, Chairman

or personal, to local residents and businesses in the Ku-ring-gai community, representing over 3% year on year increase. Despite the very competitive banking environment, this growth in both portfolio and customers is particularly pleasing and a credit to the work of the staff of both branches. In particular, this growth should be recognised in light of the fact that a considerable portion of existing customers have chosen to use the low interest rate environment to reduce or repay loan balances.

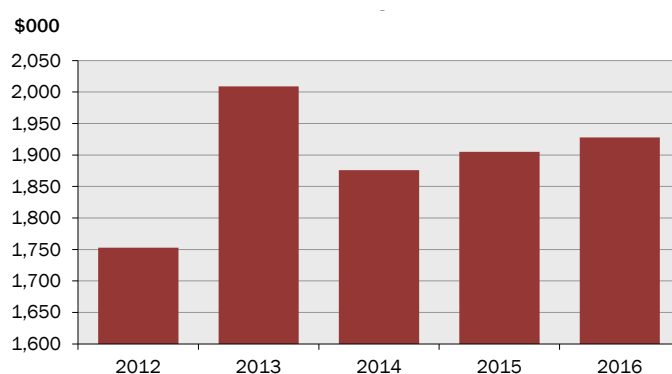
The company's revenue for the year was \$1.9 million with net profit before tax rising to \$408,559. After provision for income tax, there was a net profit of \$292,071, which represents an increase of 253% in pre-tax profit and 250% in after tax profit (see Graphs 2 and 3).

Total revenue increased by 1.2% for the year, reflecting both the low interest rates and competitive financial environment, making margins slimmer.

GRAPH 1: PORTFOLIO



GRAPH 2: REVENUE



As noted in the financial statements, the revenue sharing arrangements with Bendigo Bank will change from 1 July 2016. This will see income from both fixed and variable rate home loans and all deposits calculated on a margin share basis, which will be more equitable. However, in the prevailing low interest rate environment revenue and profit growth will continue to be a challenge.

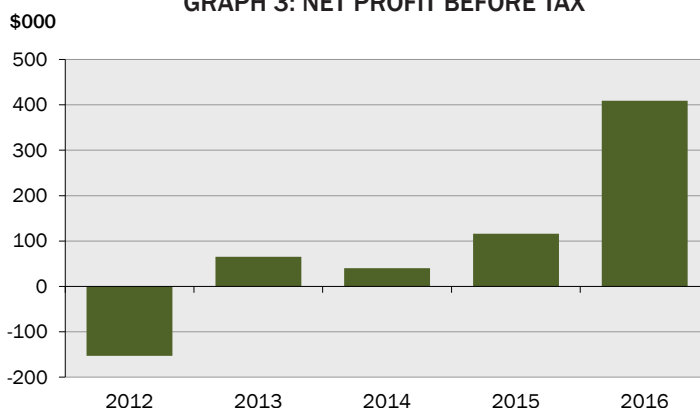
One of the fundamental elements of the **Community Bank®** model is the engagement of **Community Bank®** branches in the community. Despite business constraints, the company was still able to contribute \$59,290 into the community.

The company's balance sheet remains strong, with net assets \$1.62 million compared to \$1.43 million last year. During the year, the company continued to assist many community groups, including but not limited to The SAN Foundation, several local primary and high schools, sporting groups and not-for-profit local welfare groups (see Graph 4).

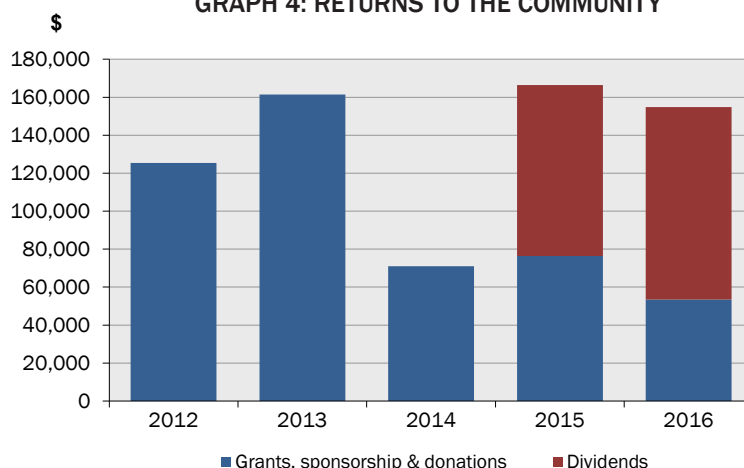
## Shareholder dividend

Owing to improved trading results this financial year, the directors declared a fully franked dividend of 4.5 cents per share which was paid in May 2016. This is the second dividend paid since the opening of the Lindfield **Community Bank®** Branch and represents 36% of the surplus generated from operations.

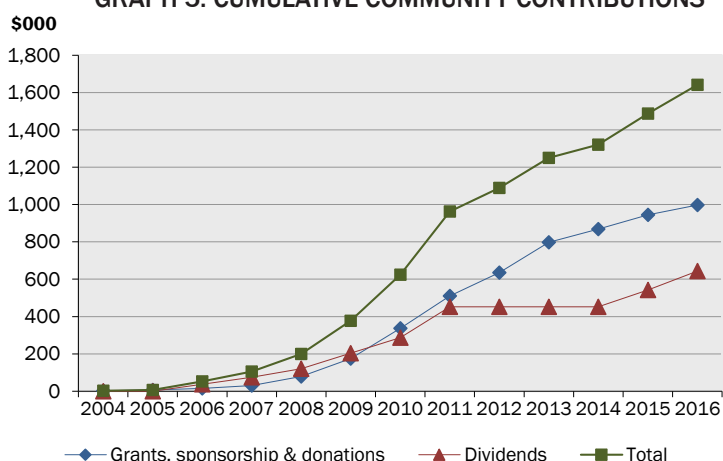
GRAPH 3: NET PROFIT BEFORE TAX



GRAPH 4: RETURNS TO THE COMMUNITY



GRAPH 5: CUMULATIVE COMMUNITY CONTRIBUTIONS



# Chairman's report continued

## Community engagement

As indicated above, the company contributed \$59,290 to the local community in the form of community grants, donations and sponsorships during the year ended 30 June 2016.

The company has continued to work on refocusing its community engagement and facilitation to maximise the benefits for the community and reciprocal customer relationships for our products and services. We are seeking to encourage our community organisations to see their relationship with us as mutually beneficial, such that a greater amount of banking business by their members can result in a greater contribution to their organisation. This has seen our relationships with a number of sporting and school groups develop significantly.

We have maintained our Staff Grants program, where our staff help to facilitate not only the provision of funds, but also the opportunity for organisations to share their story and publicise their services.

During the year we also held a Community Grants program, which started prior to year-end but was not awarded until after year-end at a very successful Community Grants Night. This process not only allowed us to provide funds to a number of community groups to assist with programs they may have otherwise struggled to achieve, but also introduced a number of other organisations to each other as well as to the company.

Smiles all round at the 2016 Staff Grants night





2016 Youth Observers (from left) Amber Zhang, Anthony Charara, Jawad Zaidi and Midori Sugiyama

Recipients of community support from the company this year include:

Bannockburn Rovers Football Club  
Can Too  
Cromehurst Foundation  
Gordon Bowling Club Limited  
Gordon East Public School  
Killara Bowling Club  
Ku-ring-gai Art Society Inc.  
Ku-ring-gai Community Workshop 'The Shed'  
Lindfield Bowling Club Limited  
Lindfield Rugby Football Club  
Novus Foundation Limited  
Our Lady of Perpetual Succour Catholic School  
Pymble Public School P&C  
Retina Australia  
Roseville Golf Club  
SAN Foundation  
Studio Artes  
Turramurra Bowling Club  
Turramurra Lookout Community Garden  
Turramurra Seniors' Croquet  
Wahroonga Food & Wine Festival  
Warrawee Bowling Club  
Welcomebasket Pty Ltd  
West Pymble Football Club  
West Pymble Public School P&C

The contribution made over the past 12 months, brings the cumulative contributions to local community groups since the company's inception to \$1,647,850 (see Graph 5).



### Youth Observer program

One aspect of our community engagement is our Youth Observer program, which recognises the need to invest in the future leaders of our community. The company has reviewed the program during the year, including surveying current and past participants and engaging with staff from Killara and Turramurra High Schools, to ensure the program is mutually beneficial to our organisations.

In addition to our Youth Observers attending board meetings, the directors encourage them to participate in sub-committees of their interest, where possible, and to attend our community events.

We thank our 2015/16 Youth Observers Jawad Zaidi and Amber Zhang from Killara High School, and Midori Sugiyama and Anthony Charara from Turramurra High School, for their participation and wish them all the best for their futures.

Dean Castell visits the Ku-ring-gai Community Workshop



Piggy is always a favourite at school events



# Chairman's report continued

## Our people

Business cannot operate without people and successful growing businesses result from motivated and engaged staff. This year has been a significantly challenging one for all of our team. Our Branch Manager, Warren Dwyer, had a stroke in January of this year. Warren is well on the path of recuperation with the support and encouragement of the company, but this did however leave a substantial gap in our team. I wish to take this opportunity to thank all staff and directors for the substantial effort made by everyone in stepping up to the challenge. I would also like to take this opportunity to thank our partners at Bendigo Bank, particularly our Senior Manager Strategy and Performance, Tony Jensen and State Manager, Michael Phillipou for the massive support we received during this difficult time.

Since April we have been fortunate to have Dean Castell lead our team. Despite the huge challenge Dean has increased business pipeline and has driven significant transformational change in the business. We have a renewed effort on our lending activities with new dedicated focus and additional staffing supporting the growth of our loans portfolio.

Both branches continue to receive outstanding reports from internal operating reviews and continue to find ways to improve the customer service experience. Feedback from customers is evidence of this, as is the word of mouth recommendations that we receive.

The directors would particularly like to thank Warren Dwyer, Dean Castell and all the staff of the branches for their passion and commitment to the company, their customers and the local community.

The directors would also like to thank Julie Fidler, our Company Secretary, Bookkeeper and Share Registrar for her ongoing support, continued dedication and effort. In May this year, as part of our succession planning process, the board appointed Toni MacDermott as a Company Secretary.

Board succession planning and renewal have been considered. A number of Board Observers has been

invited to participate and two new directors have joined the Board as a result. The company has a very experienced and qualified board of directors and an active Board Observer program to take the company through to the next growth phase.

To the directors, all of whom volunteer many hours every month attending board meetings, committee meetings and attending to company business, I thank you for your dedication and hard work. I appreciate the support you provide the staff and me in many different ways. It is gratifying to see such a talented group of people coming together and giving of their time and skills in such a productive manner.

This will be my last Annual Report as I will step down as Chair at the Annual General Meeting due to personal circumstances. I would like to thank the directors, staff and shareholders for the privilege and honour of having been able to serve as chairman of Ku-ring-gai Financial Services Limited and for the opportunity to have worked with such a wonderful group of people in an organisation making a true difference to the community.

## Outlook

Market indications are that low interest rates are likely to continue for the foreseeable future. For the year ended 30 June 2016, we managed to grow the portfolio, despite the competitive market conditions and low interest rates. From July 2016, the new revenue share model resulting from *Project Horizon* is expected to have a significant impact on future revenue. In response, we have re-positioned the company's expense base to manage this change, and focussed our training and staffing to grow our loan portfolio. We believe that continued portfolio growth will position the company well for when rates do start to climb, margins improve and customers inevitably switch back into variable rate loans.

The directors continue to review the company's strategy and operations and together with the staff will continue to look at ways to grow our business and





Staff visit the Turrumurra Lookout Community Garden

revenue through local business connections and advisors, community groups and word-of-mouth recommendations.

## Bendigo Bank

Our partnership with Bendigo and Adelaide Bank Limited continues to strengthen. I wish to acknowledge the significant support of Tony Jensen, Senior Manager Strategy and Performance and Michael Phillipou, State Manager and thank them for their immediate interest and assistance in helping the company find ways to grow its business. The NSW State Office staff provide advice, expertise and assistance to our staff and directors during the year on an ongoing basis and for that we thank them.

As noted in last year's report, Bendigo Bank had announced a review of the **Community Bank**<sup>®</sup> model, called *Project Horizon*. This was a broad-ranging review of the model in all respects, including sharing of income, structuring and managing relationships across the network. *Project Horizon* will result in a different pricing model and a change to the marketing funds and processes as of 1 July 2016.

## Conclusion


In a low interest rate environment and very competitive market, one cannot ever stop working on the business opportunities. While we continue to focus on

maintaining and serving our existing customer base, we will continue to find opportunities to grow our business in new ways. In particular, our dedicated focus on lending products should support profitable growth in our operation and an improved balance in our portfolio mix.

I have no doubt that the ethos of outstanding service and community engagement will not change and that the staff and directors will continue to be enthusiastic and motivated to continue to improve financial outcomes for the company and for our customers as well as continued improvement in community outcomes.

I thank our more than 500 shareholders for their support of the **Community Bank**<sup>®</sup> model in Ku-ring-gai. I take this opportunity to remind all readers that your support as a customer and advocate of one of our **Community Bank**<sup>®</sup> branches remains vital in ensuring our continued success.

I look forward to seeing as many shareholders as possible at our 14th Annual General Meeting, which will be conducted at the Lindfield **Community Bank**<sup>®</sup> Branch on Tuesday 15 November 2016 commencing at 7:00 pm.

  
David Pegley  
Chairman

# Branch Manager's report



I started my career with Bendigo Bank as a Customer Service Officer on the Gold Coast and after nine years of learning the business, I accepted my new role as Branch Manager of the Turrumurra and Lindfield **Community Bank**<sup>®</sup> branches on 4 April 2016.

I would like to thank the directors for this fantastic opportunity and the staff for making me feel part of the team from day one.

The past 12 months have seen personnel changes to both branches. The most difficult for staff and directors has been Warren's absence following a stroke earlier in the year; I look forward to working with Warren upon his eventual return to work. Personnel changes during the last 12 months include:

- Clive Onley (Customer Service Officer) relocated to the Gold Coast
- Murray McDonnell (Customer Service Officer) commenced in May 2016
- Rowan Klein (Business Development Manager) commenced in May 2016 and is now our new and experienced Small Business Lending Manager.
- Mercedes Durante (Mobile Lending Manager) commenced in August 2016 and brings with her a wealth of previous lending experience.

Business-wise, we now \$335 million that represents \$117 million in lending and \$218 million in deposits. This is as a the result of our customers and shareholders ongoing valued support.

This success has enabled the Turrumurra and Lindfield **Community Bank**<sup>®</sup> branches to contribute over \$1.6 million back into the local Ku-ring-gai area. The more successful we are, the more we are able to invest in sponsorships, donations, community and staff grants for years to come.

We look forward to another successful year ahead. The team and I encourage all shareholders and customers to continue telling their family and friends about us and what being a customer of our branch can do for our thriving community.

Dean Castell

Branch Manager

Turrumurra and Lindfield **Community Bank**<sup>®</sup> branches

# Branch team report

The 2015/2016 financial year has been one of change for the Turramurra and Lindfield **Community Bank**<sup>®</sup> branches, but our essential message has remained the same. We aim to help our customers by providing them with banking services that make their lives easier and in doing that we are able to support the Ku-ring-gai community to make it the best community we can.

To each of us, the **Community Bank**<sup>®</sup> model is a means of empowering us to give back to the community that we not only live and work in, but are also very passionate about. Each of us has invested our time and effort into growing the business and supporting our community even more over the 2015/16 financial year and we are proud to report that, although challenging, we have had another fantastic and successful year.

Collectively we have supported many local community groups, attended many community events and given hours of our own time to supporting the Ku-ring-gai community; in addition we have run two successful grant programs over the last financial year. Our Community Grant Program for 2015 resulted in six groups receiving a cheque at our Presentation Night in

July with a further 25 applications having been received for the 2016 program which are currently being reviewed. Our Staff Grants Program is a real favourite. We each nominate a group or organisation that is significant to us. The Presentation Nights are incredibly special with lots of networking going on between the groups and the uplifting feeling of why working for a **Community Bank**<sup>®</sup> branch is so rewarding. During the year we have also organised a bowling tournament attended by all the bowling clubs in Ku-ring-gai, have attended fetes, movie and trivia nights, run raffles and helped form partnerships between some of our groups that will benefit from our community engagement initiatives.

This year our support of the community was recognised at the 2015 Better Business Awards. The Better Business Partnership covers not only Ku-ring-gai Council but also Lane Cove, North Sydney and Willoughby City Councils and we were extremely proud to be recognised as both the Ku-ring-gai Champion for the *Community Support Award* and the overall winner of the *Community Support Award*.

Alex Milford and Annie Dobe present their Staff Grants to Ku-ring-gai Lantern Club and Gordon East Public School Band Program





## Branch team report continued

During the second half of the year we said goodbye to Clive who moved to Queensland to live nearer to his family and have been without Warren while he has been on extended leave following a stroke. We look forward to welcoming Warren back to work over the next 12 months. We have been lucky to welcome a number of new members to our team: Dean (Branch Manager), Rowan (Business Development Manager), Mercedes (Mobile Relationship Manager) and lastly, but in no way least, Murray (Customer Service Officer). Our family has grown!

We must give thanks and recognition to our ever-supportive directors who are always more than willing to jump in and lend a hand at community events. The board empowers us to represent the **Community Bank®** model to the best of our ability and they entrust us to create an ever-growing, successful business that is well known and respected within our local community.

Now, we have reported the 'what', it is only fitting that we share with you the 'why'. Why do we invest so much of our own time? Why do we proudly represent our **Community Bank®** branches? Why do we, as staff, report on the people, rather than the monetary contributions?

### Why?

**Because people matter,  
on both sides of the counter.**

Staff prepare for training on the new defibrillators, which have been installed in both Turrumurra and Lindfield branches



# Bendigo and Adelaide Bank report for the year ended 30 June 2016

It's been 18 years since Bendigo Bank and two rural communities announced they were joining forces to open **Community Bank®** branches.

The initial aim was to return traditional bank branches to regional community.

It was soon obvious that the 'community' aspect of this unique banking model was going to be just as important to all types of communities; whether they are rural, regional or urban.

Today, there are 312 **Community Bank®** communities in every state and territory of Australia.

The statistics are impressive:

- More than \$148 million in community contributions returned to local communities
- 1,900 Directors
- 1,500 staff
- More than \$38 million in shareholder dividends.

Yes, these figures are staggering.

But dig a little deeper and what's more significant is that social issues affecting every community in Australia have received funding from **Community Bank®** companies.

- Aged care
- Youth disengagement
- Homelessness
- Domestic and family violence
- Mental health
- Unemployment
- Environment

I have no doubt that your **Community Bank®** company has already had a role to play, either in a funding grant, sponsorship support or connecting locals with relevant government, corporate and not-for-profit organisations.

Behind every **Community Bank®** branch is a company Board of Directors. These people are local mums and dads, tradespeople, small business operators, farmers, lawyers, accountants, school teachers, office workers... and the list goes on.

As **Community Bank®** company Directors they volunteer their time, their professional expertise and their local knowledge to make your **Community Bank®** branch the success it is today.

To every single one of our 1,900-plus **Community Bank®** company Directors, thank you for your commitment, your confidence in Bendigo and Adelaide Bank and your vision to make your community a better place to live.

As a **Community Bank®** community, you're all change makers.

As a shareholder, you're critical to helping make things happen for the benefit of your community.

On behalf of Bendigo Bank, thank you.

Thank you for your support as a shareholder, your belief in your community and your faith in what a **Community Bank®** community can achieve.



**Robert Musgrove**  
**Executive Community Engagement**

# Directors' report

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

## Directors

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

### DIRECTOR'S DETAILS

#### David Lawrence Pegley

Chief Executive Officer  
BSc(Hons), MBA, FAICD, JP

David has had 15 years' experience in banking and financial services in Australia and New Zealand followed by 13 years in managed services, technology and logistics. He brings considerable experience and expertise in strategic and profitable business growth, stakeholder engagement, and change management in complex multi-party business and regulatory environments. David was elected Chairman on 30 November 2015.

Interest in shares: Nil

#### Roman Zeno Tarnawsky

Management Consultant  
GAICD, Grad.Dip.Mgmt. Admin, Dip Mech Engineering,  
Dip Civil Engineering

Roman has lived in Turrumurra since 1980 and has been active in local resident groups and youth sailing programs. His 30 year career has provided experience in engineering, logistics and retail marketing, including franchising and business-to-business marketing. Roman was elected Vic Chairman on 30 November 2015.

Interest in shares: 2000

#### Nirmal Singh Hansra

Non-executive company director  
M.Comm(Business Management). FAICD, FCA, FCPA.

Nirmal brings to the company 35 years' experience in business management as CFO/Finance Director and 10 years' experience as a corporate advisor and independent director. Nirmal has considerable commercial, financial, audit and risk management skills, and strong business networks and contacts. In addition Nirmal speaks several Asian languages and adds multicultural understanding. He has lived in Killara since 1979 and has taken a keen interest in local schools and sporting clubs.

Interest in shares: Nil

#### Linda June McDonald

Business Consultant  
BSc, AFAIM, FAITD

Linda has 18 years' experience consulting to medium to large businesses in executive coaching, leadership development and team development. She works from her home in Lindfield where she has lived for over 30 years. Until 1998, Linda held senior management roles in Human Resources and Human Resource & Organisation Development with large corporates in Australia and Canada. She is a Fellow and Life Member of the Australian Institute of Training & Development where she was recognised for her volunteer service over many years. Linda is President of Support Lindfield, a local community group lobbying for a Community Hub in Lindfield.

Interest in shares: 6000

#### Christopher Bradley Williamson

Marketing Agency Owner  
BCom

Chris brings business development, marketing and technology experience to the Board, as well as a Gen Y perspective. After working in finance and IT whilst studying for his Bachelor of Commerce majoring in Economics and Business Law at Macquarie University, Chris founded his own marketing agency based in Pymble.

Interest in shares: Nil

### COMMITTEE RESPONSIBILITIES

Chairman

*Ex officio* member of Governance & Risk,  
Finance & Audit and Strategy Committees

Vice Chairman

Convenor, Community Engagement Committee  
*Ex officio* member of Director Nomination, HR &  
Operations and Marketing Committees

Convenor, Finance & Audit Committee

Governance & Risk and Strategy Committees

Convenor, HR & Operations Committee

Marketing Committee







#### DIRECTOR'S DETAILS

##### **John Gallu**

Business Coach/Consultant  
BCom, FAICD

John has had 16 years' banking and insurance experience with expertise in asset finance, margin lending, private banking, wealth management and mortgage insurance prior to operating his own consultancy business. John has connections in several local sporting and community groups.

Interest in shares: Nil

#### COMMITTEE RESPONSIBILITIES

**Convenor**, Marketing Committee



##### **Sara Adams**

Information Communications Technology executive  
GAICD

Sara has had over 23 years' experience in the ICT industry with expertise in sales, marketing and distribution channels. Sara is active in her local sporting clubs.

Interest in shares: Nil

HR & Operations Committee

Marketing Committee



##### **Alan James Bardwell**

Chief Risk Officer  
BA(Hons), CA, SFFin, GAICD

Alan has a strong background in banking, finance and risk in the banking and exchange industries, and is currently Chief Risk Officer of ASX Limited. Alan has enjoyed strong associations with local Scouts, football and bushcare groups.

Interest in shares: 1000

Convenor, Governance & Risk Committee

Finance & Audit and Strategy Committees



##### **Toni Lorraine MacDermott (appointed 27 June 2016)**

Operations Manager  
GAICD

Toni has a strong background in business and sales operations in the IT industry, and is currently Business Operations Manager at VMWare Corporation. Toni has enjoyed strong associations with local netball, rugby, schools and charities.

Interest in shares: Nil

Community Engagement Committee,

Company Secretary



##### **Rowenna Margaret Allabush (appointed 22 August 2016)**

Engineering Executive  
BEng(Hons), CEng, MICE, GAICD

Rowenna has over 20 years in the engineering industry, bringing experience in operational and people management including P&L responsibility, business development and marketing as well as strategy development and execution. Rowenna currently lives in Pymble and previously Roseville. She is involved locally, participating in local schools, sports and volunteer organisations.

Interest in shares: Nil

**Allan Peter Millard (resigned 27 July 2015)**

**Dina Rebecca Teitler Coppel (resigned 30 November 2015)**

**Ian Langford-Brown (resigned 10 June 2016)**

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

No director has material interests in contracts or proposed contracts with the company.

# Directors' report continued

## Company Secretaries

The company secretaries are Julie Fidler and Toni MacDermott.

### Julie Fidler

Julie was appointed to the position of secretary at the first meeting of directors of the company on 11 December 2002. Julie has worked in business administration for over 30 years.



### Toni Lorraine MacDermott (appointed 23 May 2016)

Toni has a background in business and IT operations. She was appointed company secretary in May 2016 after being involved as a board observer since October 2015. Toni takes a keen interest in netball and rugby clubs and is a support of the Hornsby Women's Shelter.



Joanna Louise Chin (appointed 27 April 2015, resigned 18 January 2016)

## 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

The results for the year can be summarised as follows:

	2016	2015	INCREASE/(DECREASE)
	000s	000s	%
Revenue	1,928	1,905	1
Operating surplus	467	192	143
Community investment	58	76	(24)
Profit before tax	409	116	253
Portfolio (\$ million)	339	315	8
Customer numbers	5,154	4,998	3

Despite the low interest rate environment, the company managed to achieve a slight increase in revenue. However, cost savings of \$234,000 were implemented resulting in a significant increase in operating surplus. The company also increased its total banking portfolio by 8% to \$339 million and its customer numbers by 3%.

The profit of the company for the financial year after provision for income tax was \$292,043 (2015: \$83,214).

## Dividends

With improved trading performance, the company paid a dividend of 4.5 cents (2015: 4 cents) per share in June amounting to \$101,299 (2015: \$90,043).

## Significant changes in the state of affairs

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

## Events since the end of the financial year

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

## Likely developments

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

## Environmental regulation

The company is not subject to any significant environmental regulation.

## Directors' benefits

No director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a director, a firm which a director is a member or an entity in which a director has a substantial financial interest except as disclosed in the notes to the financial statements. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the company's accounts, or the fixed salary of a full-time employee of the company, controlled entity or related body corporate.

## 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:

	NUMBER OF BOARD MEETINGS		COMMUNITY ENGAGEMENT COMMITTEE	
	ELIGIBLE	ATTENDED	ELIGIBLE	ATTENDED
David Lawrence Pegley	11	11	–	–
Roman Zeno Tarnawsky	11	10	10	7
Nirmal Singh Hansra	11	9	–	–
Linda June McDonald	11	10	–	–
Christopher Bradley Williamson	11	11	–	–
John Gallu	11	10	10	6
Sarah Adams	11	10	10	6
Alan James Bardwell ( <i>appointed 27 July 2015</i> )	10	10	–	–
Toni Lorraine MacDermott ( <i>appointed 27 June 2016</i> )	1	1	–	–
Rowenna Margaret Allabush ( <i>appointed 22 August 2016</i> )	–	–	–	–
Ian Langford-Brown ( <i>resigned 10 June 2016</i> )	11	11	8	8
Dina Rebecca Teitler Coppel ( <i>resigned 30 November 2015</i> )	5	5	5	2
Allan Peter Millard ( <i>resigned 27 July 2015</i> )	1	1	1	1

## Proceedings on behalf of the company

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

## Non audit services

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

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



# Directors' report continued

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

## Auditor's independence declaration

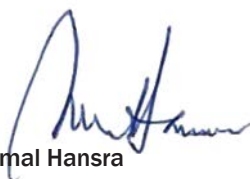
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page page 17.

Signed in accordance with a resolution of the board of directors at Lindfield, New South Wales  
on 26 September 2016.

David Pegley  
Chairman



Nirmal Hansra  
Director



# Auditor's independence declaration



## Lead auditor's independence declaration under section 307C of the *Corporations Act 2001* to the directors of Ku-ring-gai Financial Services Limited

As lead auditor for the audit of Ku-ring-gai Financial Services Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

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

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

**Andrew Frewin Stewart**  
61 Bull Street, Bendigo Vic 3550  
Dated: 26 September 2016

A handwritten signature in black ink, appearing to read 'David Hutchings'.

**David Hutchings**  
Lead Auditor

# Statement of profit or loss and other comprehensive income

## for the year ended 30 June 2016

	NOTES	2016 \$	2015 \$
Revenues from ordinary activities	4	1,928,416	1,904,891
Employee benefits expense		(764,767)	(927,847)
Charitable donations, sponsorships, advertising and promotion		(107,794)	(132,084)
Occupancy and associated costs		(283,838)	(290,795)
Systems costs		(112,904)	(171,477)
Depreciation and amortisation expense	5	(77,021)	(76,386)
Finance costs	5	–	(715)
General administration expenses		(173,560)	(189,883)
<b>Profit before income tax expense</b>		<b>408,532</b>	<b>115,704</b>
Income tax expense	6	(116,489)	(32,490)
<b>Profit after income tax expense</b>		<b>292,043</b>	<b>83,214</b>
<b>Total comprehensive income for the year</b>		<b>292,043</b>	<b>83,214</b>
<b>Earnings per share for profit attributable to the ordinary shareholders of the company</b>		¢	¢
– basic earnings per share	22	12.97	3.70

The accompanying notes form part of these financial statements.



# Balance sheet

## as at 30 June 2016

	NOTES	2016 \$	2015 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	1,319,481	976,457
Trade and other receivables	8	198,433	175,464
<b>Total current assets</b>		<b>1,517,914</b>	<b>1,151,921</b>
<b>Non-current assets</b>			
Trade and other receivables	8	25,000	50,000
Property, plant and equipment	9	281,335	317,457
Intangible assets	10	61,086	92,776
Deferred tax assets	11	20,521	51,339
<b>Total non-current assets</b>		<b>387,942</b>	<b>511,572</b>
<b>Total assets</b>		<b>1,905,856</b>	<b>1,663,493</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	12	91,956	67,136
Current tax liabilities	11	90,713	24,100
Provisions	13	56,430	75,588
<b>Total current liabilities</b>		<b>239,099</b>	<b>166,824</b>
<b>Non-current liabilities</b>			
Trade and other payables	12	–	24,528
Provisions	13	46,490	42,615
<b>Total non-current liabilities</b>		<b>46,490</b>	<b>67,146</b>
<b>Total liabilities</b>		<b>285,589</b>	<b>233,970</b>
<b>Net assets</b>		<b>1,620,267</b>	<b>1,429,523</b>
<b>EQUITY</b>			
Issued capital	14	1,258,525	1,258,525
Retained earnings	15	361,742	170,998
<b>Total equity</b>		<b>1,620,267</b>	<b>1,429,523</b>

The accompanying notes form part of these financial statements.

# Statement of changes in equity

## for the year ended 30 June 2016

	ISSUED CAPITAL \$	RETAINED EARNINGS \$	TOTAL EQUITY \$
<b>Balance at 1 July 2014</b>	<b>1,258,525</b>	<b>177,827</b>	<b>1,436,352</b>
Total comprehensive income for the year	–	83,214	83,214
<b>Transactions with owners in their capacity as owners:</b>			
Shares issued during period	–	–	–
Costs of issuing shares	–	–	–
Dividends provided for or paid	–	(90,043)	(90,043)
<b>Balance at 30 June 2015</b>	<b>1,258,525</b>	<b>170,998</b>	<b>1,429,523</b>
<b>Balance at 1 July 2015</b>	<b>1,258,525</b>	<b>170,998</b>	<b>1,429,523</b>
Total comprehensive income for the year	–	292,043	292,043
<b>Transactions with owners in their capacity as owners:</b>			
Shares issued during period	–	–	–
Costs of issuing shares	–	–	–
Dividends provided for or paid	–	(101,299)	(101,299)
<b>Balance at 30 June 2016</b>	<b>1,258,525</b>	<b>361,742</b>	<b>1,620,267</b>

The accompanying notes form part of these financial statements.

# Statement of cash flows

## for the year ended 30 June 2016

	NOTES	2016 \$	2015 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		1,885,393	2,069,240
Payments to suppliers and employees		(1,466,634)	(1,911,312)
Interest received		28,831	28,226
Interest paid		–	(715)
Income taxes paid		(19,058)	(4,188)
<b>Net cash provided by operating activities</b>	<b>16</b>	<b>428,532</b>	<b>181,251</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(9,209)	(2,820)
Proceeds from property, plant and equipment		–	19,237
<b>Net cash provided by/(used in) investing activities</b>		<b>(9,209)</b>	<b>16,417</b>
<b>Cash flows from financing activities</b>			
Loans advanced		–	(75,000)
Repayment of loans		25,000	–
Repayment of borrowings		–	(22,435)
Dividends paid		(101,299)	(90,043)
<b>Net cash used in financing activities</b>		<b>(76,299)</b>	<b>(187,478)</b>
<b>Net increase in cash held</b>		<b>343,024</b>	<b>10,190</b>
Cash and cash equivalents at the beginning of the financial year		976,457	966,267
<b>Cash and cash equivalents at the end of the financial year</b>	<b>7(a)</b>	<b>1,319,481</b>	<b>976,457</b>

The accompanying notes form part of these financial statements.



# Notes to the financial statements

## for the year ended 30 June 2016

### 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.

#### *Adoption of new and amended accounting standards*

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

AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031

Materiality

AASB 2015-4 Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent

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

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

	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER
AASB 9 Financial Instruments, and the relevant amending standards	1 January 2018
AASB 15 Revenue from Contracts with Customers and AASB 2014-5 – Amendments to Australian Accounting Standards arising from AASB 15	1 January 2018
AASB 16 Leases	1 January 2019
AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations	1 January 2016

AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
AASB 2014-6 Amendments to Australian Accounting Standards – Agriculture: Bearer Plants	1 January 2016
AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements	1 January 2016
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2018
AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle	1 January 2016
AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	1 January 2016
AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception.	1 January 2016
AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	1 January 2017

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

*Economic dependency – Bendigo and Adelaide Bank Limited*

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank**<sup>®</sup> branches at Turrumurra and Lindfield.

The branches operate as franchises 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**<sup>®</sup> branches on behalf of Bendigo and Adelaide Bank Limited, however all transactions with customers conducted through the **Community Bank**<sup>®</sup> 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.

# Notes to the financial statements continued

## 1 Summary of significant accounting policies continued

### a) *Basis of preparation continued*

*Economic dependency – Bendigo and Adelaide Bank Limited continued*

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

- advice and assistance in relation to the design, layout and fitout 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; and
- 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 other stated.

### b) *Revenue*

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

#### *Revenue calculation*

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

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

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

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

#### *Core banking products*

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

#### *Margin*

Margin is arrived at through the following calculation:

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

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

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

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

#### *Commission*

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

#### *Fee income*

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

#### *Ability to change financial return*

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

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

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

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



# Notes to the financial statements continued

## 1 Summary of significant accounting policies continued

### b) *Revenue continued*

#### *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.

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

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

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

### c) *Income tax*

#### *Current tax*

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

#### *Deferred tax*

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

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

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

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

#### *Current and deferred tax for the period*

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

#### **d) Employee entitlements**

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

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

#### **e) Cash and cash equivalents**

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

#### **f) Trade receivables and payables**

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

#### **g) Property, plant and equipment**

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

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

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

- leasehold improvements      10 years
- plant and equipment      2.5 - 40 years
- furniture and fittings      4 - 40 years

#### **h) Intangibles**

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

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

# Notes to the financial statements continued

## 1 Summary of significant accounting policies continued

### 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) Held-to-maturity investments

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

##### (iii) Available-for-sale financial assets

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

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

##### (iv) Financial liabilities

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

#### *Impairment*

At each reporting date, the entity assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the Statement of profit or loss and other comprehensive income.

### l) **Leases**

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

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

**m) Provisions**

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions 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.

## **2 Financial risk management**

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

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

**(i) Market risk**

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

**(ii) Price risk**

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

**(iii) Credit risk**

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



# Notes to the financial statements continued

## 2 Financial risk management continued

### (iv) *Liquidity risk*

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

### (v) *Cash flow and fair value interest rate risk*

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

### (vi) *Capital management*

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

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

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

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

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

## 3 Critical accounting estimates and judgements

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

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

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

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

## ***Taxation***

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

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

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

## ***Estimation of the 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

2016	2015
\$	\$

## 4 Revenue from ordinary activities

### Operating activities:

– services commissions	1,241,398	1,183,790
– other revenue	657,764	691,046
<b>Total revenue from operating activities</b>	<b>1,899,162</b>	<b>1,874,836</b>

### Non-operating activities:

– interest received	29,254	30,055
Total revenue from non-operating activities	29,254	30,055
<b>Total revenues from ordinary activities</b>	<b>1,928,416</b>	<b>1,904,891</b>

## 5 Expenses

### Depreciation of non-current assets:

– plant and equipment	5,401	8,360
– leasehold improvements	39,930	39,935

### Amortisation of non-current assets:

– franchise agreement	4,519	4,100
– establishment fee	15,710	12,539
– franchise renewal fee	11,461	11,452
	<b>77,021</b>	<b>76,386</b>

### Finance costs:

– interest paid	–	715
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<b>Bad debts</b>	20	547
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<b>Loss on disposal of assets</b>	–	4,597
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## 6 Income tax expense

The components of tax expense comprise:

– Current tax	101,450	38,821
– Movement in deferred tax	28,953	(14,303)
– Adjustment to deferred tax to reflect change of tax rate	1,866	–
– Under/over provision	(15,780)	–
– Recoupment of prior year tax losses	–	7,972
	<b>116,489</b>	<b>32,490</b>

	NOTE	2016	2015
		\$	\$
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:			
<b>Operating profit</b>		<b>408,531</b>	<b>115,704</b>
Prima facie tax on profit from ordinary activities at 28.5% (2015: 30%)		116,431	34,712
Add tax effect of:			
– non-deductible expenses		–	–
– timing difference expenses		(12,767)	14,303
– other deductible expenses		(2,214)	(2,222)
		<b>101,450</b>	<b>46,793</b>
Movement in deferred tax		28,953	(14,303)
Adjustment to deferred tax to reflect change of tax rate		1,866	–
Under/over provision		(15,780)	–
		<b>116,489</b>	<b>32,490</b>

## 7 Cash and cash equivalents

Cash at bank and on hand	108,873	166,642
Term deposits	1,210,608	809,815
	<b>1,319,481</b>	<b>976,457</b>

### 7(a) Reconciliation of cash

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	108,873	166,642
Term deposits	1,210,608	809,815
	<b>1,319,481</b>	<b>976,457</b>

## 8 Trade and other receivables

### Current

Trade receivables	150,831	137,062
Prepayments	13,762	4,985
Other receivables and accruals	33,840	33,417
	<b>198,433</b>	<b>175,464</b>

### Non-current

Other receivables and accruals	25,000	50,000
	<b>25,000</b>	<b>50,000</b>



# Notes to the financial statements continued

	2016 \$	2015 \$
<b>9 Property, plant and equipment</b>		
<b>Leasehold improvements</b>		
At cost	401,771	398,384
Less accumulated depreciation	(168,835)	(128,905)
	<b>232,936</b>	<b>269,479</b>
<b>Furniture and fittings</b>		
At cost	87,765	83,443
Less accumulated depreciation	(39,366)	(35,465)
	<b>48,399</b>	<b>47,978</b>
<b>Total written down amount</b>	<b>281,335</b>	<b>317,457</b>
<b>Movements in carrying amounts:</b>		
<i>Leasehold improvements</i>		
Carrying amount at beginning	269,479	309,549
Additions	3,387	2,820
Disposals	–	(2,955)
Less: depreciation expense	(39,930)	(39,935)
<b>Carrying amount at end</b>	<b>232,936</b>	<b>269,479</b>
<i>Motor vehicles</i>		
Carrying amount at beginning	–	22,955
Additions	–	–
Disposals	–	(20,879)
Less: depreciation expense	–	(2,076)
<b>Carrying amount at end</b>	<b>–</b>	<b>–</b>
<i>Furniture and fittings</i>		
Carrying amount at beginning	47,978	54,262
Additions	5,822	–
Disposals	–	–
Less: depreciation expense	(5,401)	(6,284)
<b>Carrying amount at end</b>	<b>48,399</b>	<b>47,978</b>
<b>Total written down amount</b>	<b>281,335</b>	<b>317,457</b>

	2016 \$	2015 \$
<b>10 Intangible assets</b>		
<b>Franchise fee</b>		
At cost	97,018	97,018
Less: accumulated amortisation	(87,039)	(82,520)
	<b>9,979</b>	<b>14,498</b>
<b>Establishment fee</b>		
At cost	70,000	70,000
Less: accumulated amortisation	(65,742)	(50,032)
	<b>4,258</b>	<b>19,968</b>
<b>Renewal processing fee</b>		
At cost	135,085	135,085
Less: accumulated amortisation	(88,236)	(76,775)
	<b>46,849</b>	<b>58,310</b>
<b>Total written down amount</b>	<b>61,086</b>	<b>92,776</b>
<b>11 Tax</b>		
<b>Current:</b>		
Income tax payable/(refundable)	90,713	24,100
<b>Non-current:</b>		
<i>Deferred tax asset</i>		
– accruals	2,558	2,730
– employee provisions	28,303	35,461
– property, plant and equipment	–	15,536
	<b>30,861</b>	<b>53,727</b>
<i>Deferred tax liability</i>		
– accruals	2,306	2,388
– deductible prepayments	8,034	–
	<b>10,340</b>	<b>2,388</b>
<b>Net deferred tax asset</b>	<b>20,521</b>	<b>51,339</b>
<b>Movement in deferred tax charged to Statement of profit or loss and other comprehensive income</b>	<b>30,818</b>	<b>(14,303)</b>

# Notes to the financial statements continued

2016	2015
\$	\$

## 12 Trade and other payables

### Current:

Trade creditors	10,162	6,832
Other creditors and accruals	81,794	60,304
	<b>91,956</b>	<b>67,136</b>

### Non-current:

Other creditors and accruals	-	24,528
	-	24,528

## 13 Provisions

### Current:

Provision for annual leave	52,430	57,988
Provision for annual bonus	4,000	17,600
	<b>56,430</b>	<b>75,588</b>

### Non-Current:

Provision for long service leave	46,490	42,618
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## 14 Contributed equity

2,251,085 ordinary shares fully paid (2015: 2,251,085)	1,326,925	1,326,925
Less: equity raising expenses (Turramurra)	(40,196)	(40,196)
Less: equity raising expenses (Lindfield)	(28,204)	(28,204)
	<b>1,258,525</b>	<b>1,258,525</b>

### Rights attached to shares

#### (a) Voting Rights

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

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

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

(b) *Dividends*

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

(c) *Transfer*

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

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

**Prohibited shareholding interest**

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

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

- they control or own 10% or more of the shares in the company (the '10% limit').
- In the opinion of the board they do not have a close connection to the community or communities in which the company predominantly carries on business (the 'close connection test').
- Where the person is a shareholder, after the transfer of shares in the company to that person the number of shareholders in the company is (or would be) lower than the base number (the 'base number test'). The base number is 343. As at the date of this report, the company had 515 shareholders.

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

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

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

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



# Notes to the financial statements continued

	2016	2015
	\$	\$
<b>15 Retained earnings</b>		
Balance at the beginning of the financial year	170,998	177,827
Net profit from ordinary activities after income tax	292,043	83,214
Dividends paid or provided for	(101,299)	(90,043)
<b>Balance at the end of the financial year</b>	<b>361,742</b>	<b>170,998</b>

## 16 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	292,043	83,214
<b>Non cash items:</b>		
– depreciation	45,331	48,295
– amortisation	31,690	28,091
– loss on disposal of asset	–	4,597
<b>Changes in assets and liabilities:</b>		
– (increase)/decrease in receivables	(22,969)	2,864
– (increase)/decrease in other assets	30,818	(14,304)
– increase/(decrease) in payables	292	(9,973)
– increase/(decrease) in provisions	(15,286)	(4,139)
– increase/(decrease) in current tax liabilities	66,613	42,606
<b>Net cash flows provided by operating activities</b>	<b>428,532</b>	<b>181,251</b>

## 17 Leases

### Operating lease commitments

Payable – minimum lease payments		
– not later than 12 months	225,580	224,385
– between 12 months and 5 years	415,735	293,439
– greater than 5 years	–	–
	<b>641,315</b>	<b>517,824</b>

Each premises lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. The lease on the Turrumurra branch premises expires in August 2018 and the lease on the Lindfield branch premises expires in November 2020.

## 18 Auditors' remuneration

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

– audit and review services	7,230	6,900
– tax services	575	550
– non-audit services	1,796	1,450
	<b>9,601</b>	<b>8,900</b>

2016	2015
\$	\$

## 19 Director and related party disclosures

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

### Transactions with related parties

Christopher Williamson is a director of LIKEaBOSS Group Pty Ltd which provided website design, website hosting and graphic design services to the company during the financial year	2,512	895
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Detailed shareholding disclosures are provided in the remuneration report, included as part of the directors' report.

## 20 Dividends paid or provided

### a) Dividends paid during the year

#### Current year dividend

100% (2015: 100%) franked dividend - 4.5 cents (2015: 4 cents) per share	101,299	90,043
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The tax rate at which dividends have been franked is 30% (2015: 30%).

### b) Franking account balance

Franking credits available for subsequent reporting periods are:

- franking account balance as at the beginning of the financial year	142,932	180,651
- franking credits from payment of income tax instalments during the financial year	14,332	-
- franking credits from payment of income tax following lodgement of annual income tax returns	8,042	871
- franking debits from the payment of fully franked dividends	(43,413)	(38,590)
- franking account balance as at the end of the financial year	121,893	142,932
- franking credits that will arise from payment of income tax payable as at the end of the financial year	90,713	24,100
- 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:	212,606	167,032
- franking debits that will arise from the 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	-	-
<b>Net franking credits available</b>	<b>212,606</b>	<b>167,032</b>

## 21 Key Management Personnel disclosures

No director of the company receives remuneration for services as a company director or committee member. There are no executives within the company whose remuneration is required to be disclosed.

# Notes to the financial statements continued

2016  
\$

2015  
\$

## 22 Earnings per share

(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share

292,043 83,214

NO. NO.

(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share

2,251,085 2,251,085

## 23 Events occurring after the reporting date

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

## 24 Contingent liabilities and contingent assets

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

## 25 Segment reporting

The economic entity operates in the service sector where it facilitates **Community Bank®** services in Turramurra and Lindfield, New South Wales pursuant to franchise agreements with Bendigo and Adelaide Bank Limited.

## 26 Registered office/Principal place of business

The entity is a company limited by shares, incorporated and domiciled in Australia.

The registered office and principal place of business is:

### Registered office

1273 Pacific Highway  
Turramurra NSW 2074

### Principal place of business

1273 Pacific Highway  
Turramurra NSW 2074

### Other place of business

318 Pacific Highway  
Lindfield NSW 2070

## 27 Financial instruments

### Financial instrument composition and maturity analysis

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

FINANCIAL INSTRUMENT	FLOATING INTEREST RATE		FIXED INTEREST RATE MATURING IN						NON INTEREST BEARING		WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	
			1 YEAR OR LESS		OVER 1 TO 5 YEARS		OVER 5 YEARS					
		2016 \$	2015 \$	2016 \$	2015 \$	2016 \$	2015 \$	2016 \$	2015 \$	2016 \$	2015 \$	2016 \$
Financial assets												
Cash and cash equivalents	108,473	166,242	1,210,608	809,815	-	-	-	-	400	400	2.46	2.72
Receivables	-	-	-	-	-	-	-	-	175,831	137,062	N/A	N/A
Financial liabilities												
Interest bearing liabilities	-	-	-	-	-	-	-	-	-	-	N/A	N/A
Payables	-	-	-	-	-	-	-	-	10,077	6,831	N/A	N/A

**Net fair values**

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

**Credit risk**

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

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

**Interest rate risk**

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

**Sensitivity analysis**

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

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

	2016	2015
	\$	\$
Change in profit/(loss):		
Increase in interest rate by 1%	13,191	9,761
Decrease in interest rate by 1%	(13,191)	(9,761)
Change in equity:		
Increase in interest rate by 1%	13,191	9,761
Decrease in interest rate by 1%	(13,191)	(9,761)

# Directors' declaration

In accordance with a resolution of the directors of Ku-ring-gai Financial Services Limited, we state that:

In the opinion of the directors:

- (a) the financial statements and notes of the company are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
  - (ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- (c) the audited remuneration disclosures set out in the remuneration report section of the directors' report comply with Accounting Standard AASB174 *Related Party Disclosures* and the Corporations Regulations 2001.

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



**David Pegley**  
Chairman



**Nirmal Hansra**  
Director

Signed on 26 September 2016



# Independent auditor's report

## to the members of Ku-ring-gai Financial Services Limited



### Independent auditor's report to the members of Ku-ring-gai Financial Services Limited

#### Report on the financial report

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

#### Directors' responsibility for the financial report

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

#### Auditor's responsibility

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

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

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

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

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

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

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# Independent auditor's report continued

## Independence

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

## Auditor's opinion on the financial report

In our opinion:

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



**Andrew Frewin Stewart**  
61 Bull Street, Bendigo Vic 3550  
Dated: 26 September 2016



**David Hutchings**  
Lead Auditor







Franchisee: Ku-ring-gai Financial Services Limited  
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[www.kfsl.com.au](http://www.kfsl.com.au)  
**ABN 56 103 129 184**

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Lindfield **Community Bank**<sup>®</sup> Branch  
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