

KU-RING-GAI FINANCIAL SERVICES LIMITED

ABN 56 103 129 184

ANNUAL REPORT 2018

Turramurra and Lindfield
Community Bank® branches



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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 2018.

The company had a year of solid performance with financial results holding up well despite a cooling-off in the housing market and a continuation of the low interest rate environment and tight credit conditions. During the year, the company has expanded our referral channels, broadened our geographic reach, including use of mobile lending, and enhanced our digital presence through social media and an improved website. The results have enabled the company to provide further financial support to the local community while also delivering a stronger dividend to shareholders. The company continues to be focused on looking for growth opportunities, strengthening community engagement and enhancing the efficiency of business operations.

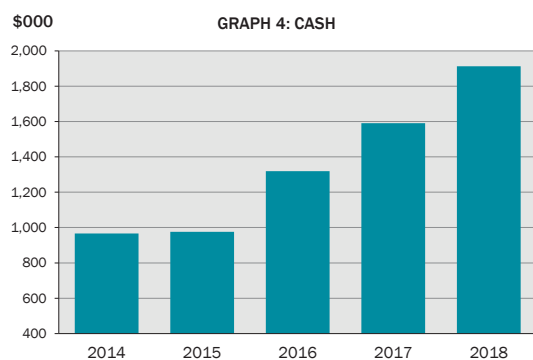
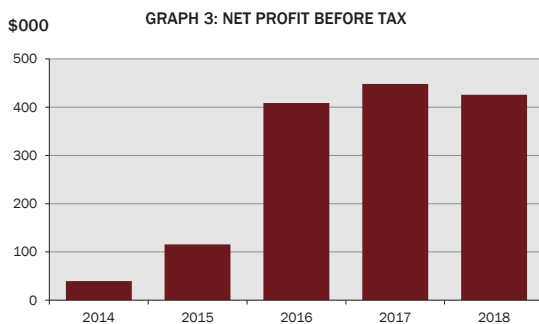
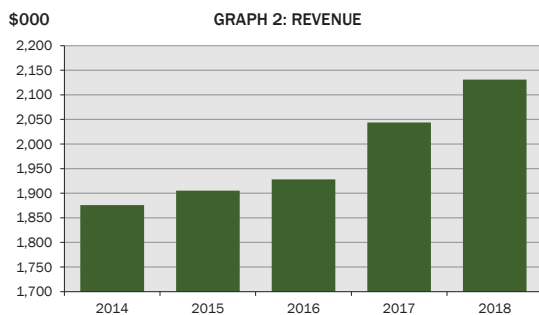
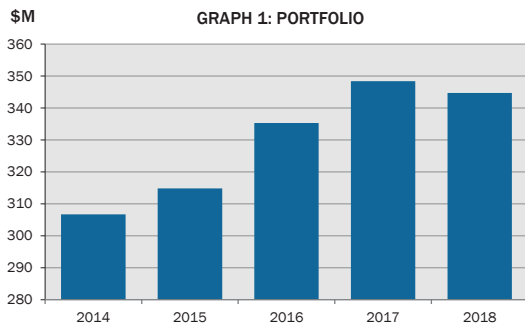
At the end of the financial year our Company Secretary and Director, Toni MacDermott, resigned and in October 2018 Nirmal Hansra will also resign from the Board. I would like to thank both Toni and Nirmal for their considerable contribution to the company. Our Board Observer program has enabled a strong pipeline of potential Board candidates and we expect to shortly fill these vacancies on the Board. With Toni's departure we have appointed Ian Greentree as Company Secretary. Ian has considerable experience serving Community Bank® branches as company secretary and we welcome him to the company.



In terms of the continued success of the company, I am once again hugely indebted to the enormous contribution of our people. This applies to our Branch Manager, Dean Castell, and all his staff, to our Board of Directors (all of whom volunteer many hours to the company) and to our partners at Bendigo Bank with whom we continue to enjoy a highly collaborative and supportive relationship. I would like to take this opportunity to say a massive thank you to you all for your significant efforts on behalf of the company during the year.

Operating results

The company's financial results cover the operations of the Turramurra and Lindfield Community Bank® branches. At 30 June 2018, the company banking business portfolio was \$345 million, which was just down on last year (see Graph 1). Revenue though increased 4% to \$2.1 million (see Graph 2) and customer numbers rose by 2% to 5,251. This result was hard earned as existing customers continued to use the low interest rate environment to either fully or partially repay their loans requiring the company to write more new business than last year, and in a softening housing market, just to replace the outflow. Well done to Dean Castell and all his staff for this achievement.



Net profit before tax of \$425,494 and net profit after tax of \$308,440 were both down by 5% on the prior year (see Graph 3). This is entirely due to higher employee expenses as the company invests in the level and quality of employees to strengthen our ability to grow the portfolio in 2018/19 and beyond. This includes hiring a mobile relationship manager.

The company's balance sheet remains strong, with year-end cash reserves of \$1.91 million up from \$1.59 million last year (see Graph 4).

Shareholder dividend

In consideration of the strong trading results, the Directors paid during the year a fully franked dividend of 6.0 cents per share (prior year 5.5 cents per share). This is the highest dividend paid since the opening of the Lindfield Community Bank® Branch and represents 44% of profit after tax.



The Launch of the Men's Shed Cookbook



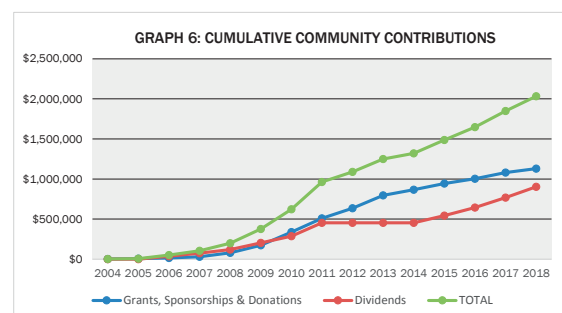
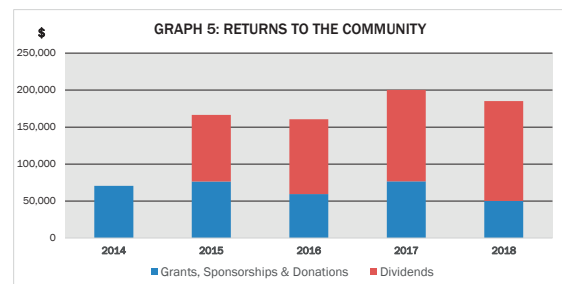
Our visit to Cromehurst School

Community engagement

As I noted last year, one of the fundamental elements of the Community Bank® model is the engagement of Community Bank® branches in the community. This is a shared value model where the support and engagement provided by the Community Bank® company to the community provides long-term mutually sustainable value to all parties. The strong financial performance enabled the company to contribute \$50,177 into the community. This brings the cumulative contributions to local community groups, including shareholders, since the company's inception to \$2,033,076 (see Graphs 5 & 6).

We expect the support of the community to remain strong in 2018/19, being boosted by the pre-Christmas promotion of the Ku-ring-gai monopoly game where all profits will be reinvested back to the community. Further details of the company's community activities are provided in the Community Engagement Report from our Community Development Manager, Sharon Franke.

One aspect of our community engagement is our Youth Observer Program, which recognises the need to invest in the future leaders of our community. Our Youth Observers attend Board and committee meetings as well attending our community events. We thank our 2017/18 Youth Observers Greg Gurtata, Elizabeth Marsh, Tara Virago and Liam Berkovsky from Turrumurra High School for their participation and wish them all the best for their futures.





Celebrating the
60th birthday of
Turramurra
Women's Bowling
Club

Outlook

Last year I commented that the near-term outlook is a challenging one with the likely continuation of a low interest rate environment, signs of a softening housing market, and tighter credit conditions as regulators and industry become more concerned about the level and serviceability of household debt. This remains the outlook for the next year at least and it is likely to become more difficult as the reputation of the banking and finance industry continues to be negatively impacted by the Royal Commission and we await its final recommendations. On a positive note Bendigo and Adelaide Bank, with its strong community ethos and relatively strong brand, is well placed to compete against the major and other banks. Indeed, towards the end of 2017/2018 and in to the new year we have seen strong settlements and a build-up in our lending pipeline that is hopefully an early indicator this is a real opportunity.



Uniforms donated by Turramurra United Football Club for our
collection to Their Beautiful Game

Conclusion

Despite the challenging business environment, the company has achieved a solid financial performance in 2017/18 that continues to deliver social and economic benefits to the community and a strong return to shareholders. This has been achieved through a clear focus on building the business, retaining our commitment to excellent customer service and community engagement, and through the hard work of highly engaged staff. The Board is committed to maintaining this ethos while investing in resources, capabilities and opportunities directed at our primary objective of building our loan portfolio and constantly improving operating efficiency.

Lastly, I would like to thank our more than 500 shareholders for your continued support of the Community Bank® model in Ku-ring-gai. Your support as a customer and advocate of our Community Bank® branches remains vital in ensuring our continued success. I look forward to seeing as many shareholders as possible at our 16th Annual General Meeting, which will be conducted at the Lindfield Community Bank® Branch on Wednesday 14 November 2018 commencing at 7:00 pm.

Alan Bardwell
Chairman



Pearlie in the Park production at Marian Street Theatre

Branch Manager's Report



This past financial year has been one of business and market change. Despite the real estate activity with home prices plateauing and many of our borrowing customers choosing to realise on their residential investment, we had strong new lending performances across both branches resulting in loan approvals and settlements of almost \$30 million. Our portfolio at the end of 2017/18 financial year came in at a total of \$345m consisting of \$123m lending and \$202m in deposit funds plus \$20m in other facilities. Looking forward to next year, customer sentiment towards debt reduction may stabilise and allow our branches to increase value to the communities that we service.

We have had a number of changes in relation to branch staff, from Annie and Mercedes moving on with my best wishes, to new team members joining us from the second half of the financial year. Ibrahim Bilen, Customer Service Officer (customer facing), Sebastian Zhang, Mobile Relationship Manager (mobile lender) and Rachel Collyer, Customer Relationship Officer (in-branch lender) have been great additions to our team. I look forward to seeing their results after a full year behind them.

Turramurra & Lindfield Community Bank® branches would not be as successful as they are without the support of my team Warren, Brenda, Michele, Vikki, Sharon, Karen, Diana, Murray, Ibrahim, Sebastian, Rachel, our Chairman Alan and Board members. I would like to take this opportunity to invite you, your family and friends to come in and meet the team. Allow us to show you why we are Bigger than a bank. We are committed to the Bendigo Bank's vision of being Australia's most customer-connected Bank and our vision is 'To be the best and most trusted financial services provider in Ku-ring-gai'. We believe the success of our customers is paramount to the success of our own business and community.

Supporting your local Community Bank® branch enables us to reward our shareholders and invest more in our fantastic community.

Please see Sharon Franke's Community Development Manager's report to read about the great things we have done in the Turramurra, Lindfield and the greater Ku-ring-gai community.

Dean Castell
Branch Manager

Community Engagement Report

The focus of Community Engagement is to operate a shared model that looks to generate long-term sustainable value for both our community and shareholders. The board of Ku-ring-gai Financial Services Limited ('KFSL') manages this through the Community Engagement committee, whose primary role is to influence positive change through both the distribution of funds and acting as a facilitator in co-ordinating community engagement, thereby enabling KFSL to fulfil its objectives in the following areas:

- Enhancing the visibility of KFSL within the community and encouraging KFSL to be recognised as an outstanding community partner;
- Developing an ongoing mutually beneficial relationship between our community and KFSL;
- Positioning our website (www.tlcbb.com.au) as a Community Hub;
- Providing a reasonable return to KFSL on its investment in the community by increasing its customer base and level of banking business.

During financial year ending 30 June 2018, KFSL contributed \$50,177 to the local community in the form of community grants, donations and sponsorships. We provided financial support to 48 community groups including four local schools and nineteen sporting clubs, by way of sponsorships, donations and community grants.

Community Engagement actively involves both branches. During the year our staff and directors have attended many community events and given hours of their own time to support the Ku-ring-gai community. In addition, we ran two successful grant programs.

- Our Community Grants Program for 2017/18 approved grants to nine groups resulting in a total of \$35,670 being given in support of the community.
- Our Staff Grants Program – this is a real favourite where each staff member nominates a group or organisation that is significant to them to support. The Presentation nights are incredibly special with lots of networking between the groups and the uplifting feeling of why working for a Community Bank is so rewarding.

Importantly, we also worked together with community groups to achieve a common goal. A great example of this was our collection of football boots, balls and shin pads for Their Beautiful Game. During the year we partnered with six local football clubs, who together with members of the local community, collected in excess of 90 pairs of boots which were dropped off into our branches. These boots were distributed by Their Beautiful Game locally to new refugees in the inner Sydney area and as far away as Ghana.

In 2017/218 we organised a bowling tournament between seven bowling clubs in Ku-ring-gai, supported the creation of the Ku-ring-gai Men's Shed Cook Book, attended forums and fundraising evenings and provided introductions between organisations that have allowed valuable partnerships to form.

This brings the cumulative contributions to local community groups, including shareholders, since the company's inception to \$2,033,076.

Sharon Franke
Community Development Manager

Bendigo & Adelaide Bank Report

for the year ended 30 June 2018

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

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

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

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

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

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

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

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

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

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

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

Robert Musgrove
Bendigo and Adelaide Bank

Directors' Report

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

Directors

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

Alan James Bardwell

Chair

Occupation: Non-executive Director and Consultant

Qualifications, experience and expertise: BA(Hons), CA, SFFin, GAICD. Alan has 35 years' experience in the banking and finance industry including 16 years with Citigroup and more recently 10 years to February 2017 as Chief Financial Officer and then Chief Risk Officer at ASX Limited. Alan is a non-executive director of RT Health Ltd and Transport Health Pty Ltd and a consultant for The Risk Board providing specialist advice to banking and finance clients. Alan was appointed Chairman of Ku-ring-gai Financial Services Ltd in November 2016. Alan has enjoyed strong associations with local Scouts, football and bushcare groups. Special responsibilities: Chair of Strategic Planning Committee
Interest in shares: 1,000



Roman Zeno Tarnawsky

Deputy Chair

Occupation: Management Consultant

Qualifications, experience and expertise: GAICD, Grad.Dip.Mgmt. Admin, Dip Mechanical 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 appointed Vice Chairman on 1 July 2014. Other current directorships include Berowra & District Financial Services Limited. Special responsibilities: Member of HR & Operations, Finance & Audit, Community Engagement, Marketing and Strategy Planning Committees.
Interest in shares: 2,000



Sara Adams

Director

Occupation: Retired

Qualifications, experience and expertise: GAICD. Sara has had over 24 years' experience in the ICT industry with expertise in sales, marketing and distribution channels. Sara is active in her local sporting clubs. Special responsibilities: Chair of Community Engagement Committee. Member of HR & Operations and Strategic Planning Committees.
Interest in shares: Nil



John Gallu

Director

Occupation: Business Consultant, Executive Coach, Advisory Board Member.

Qualifications, experience and expertise: BCom, FAICD. John has had 16+ years' Banking and Insurance experience with expertise in Asset Finance, Margin Lending, Retail and Private Banking, Financial Planning and Wealth Management prior to operating his own consultancy business. John has connections in several local sporting and community groups.

Special responsibilities: Member of Marketing Committee
Interest in shares: Nil



Nirmal Singh Hansra

Director

Occupation: Non-executive Company Director

Qualifications, experience and expertise: M.Comm (Business Management). FAICD, FGIA, FCA, FCPA. Nirmal brings to the company 35 years' experience in business management as CFO/Finance Director and 12 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. Other current directorships include Eureka Group Holdings Ltd, Campbell Page Group Ltd, Campbell Page Ltd, Link Housing Ltd, Children's Tumour Foundation of Australia, Have A Voice Pty Ltd and COTA (NSW) Inc. Special responsibilities: Chair of Finance and Audit Committee
Interest in shares: Nil



Linda June McDonald

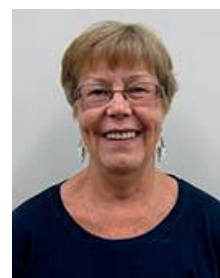
Director

Occupation: Executive Coach

Qualifications, experience and expertise: BBS, AFAIM, FAITD. Linda has 20 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. Prior to her consulting career she held senior management roles in human resources and 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. She is President of Support Lindfield, a local community group lobbying for a community hub in Lindfield. She is Vice President of the North Shore Rowing Club and is a keen rower and cyclist.

Special responsibilities: Chair of HR & Operations Committee

Interest in shares: 6,000

**Christopher Bradley Williamson**

Director

Occupation: Marketing Agency Owner

Qualifications, experience and expertise: 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.

Special responsibilities: Member of Marketing, Community Engagement and Governance & Risk Committees. Interest in shares: Nil

**Rowenna Margaret Allabush**

Director

Occupation: Civil Engineer

Qualifications, experience and expertise: 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.

Special responsibilities: Chair of Marketing Committee. Member of Community Engagement Committee.

Interest in shares: Nil

**Vera Fiala**

Director

Occupation: Director

Qualifications, experience and expertise: BEng(Hons), MEnvEngSci, GradDipBusAdmin, GAICD Vera has been a senior executive with 25 years international expertise in healthcare, natural resource management, primary industries, shared services and public administration. She is now a consultant, helping for-purpose organisations run more effectively. She also runs her own creative business and is active in the local community through sporting clubs and mental health organisations.

Special responsibilities: Chair of Governance and Risk Committee, Member of Finance & Audit Committee.

Interest in shares: Nil

**Toni Lorraine MacDermott**

Director (Resigned 30 June 2018)

Occupation: Operations Manager

Qualifications, experience and expertise: GAICD. Toni has over 20 years' experience in the Information and Technology industry including 8 years with Oracle Corporation and more recently 2 years as Director, Professional Services Operations at VMware Corporation. Toni was also company secretary for The 100% Project and enjoys strong associations with local schools, netball, rugby and charities.

Special responsibilities: Company Secretary until January 2018, Chair of Community Engagement Committee and Member of Governance and Risk Committee.

Interest in shares: Nil



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

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

Company Secretary

The Company Secretary is Ian John Greentree. Ian was appointed to this position on 30 April 2018 and took over from Julie Fidler and Toni McDermott. Qualifications, experience and expertise: Diploma of Law, Associate Diploma Accounting, Retired Solicitor, Accountant and Company Secretary. Ian worked within the Banking and Financial Services, Automotive and Health Industries. He is also a Director and Company Secretary of Harbord Financial Services Limited.
Interest in Shares Nil.



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:

	2018	2017	Change
	\$000s	\$000s	%
Revenue	2,131	2,044	4
Operating surplus	474	525	(10)
Community investment	49	77	(36)
Profit before tax	425	448	(5)
Portfolio (\$ million)	345	348	(1)
Customer numbers	5,251	5,158	2

Despite the tight regulatory environment and continued low interest rates, the company managed to increase revenue by 4%. We continued to invest in staff and systems to grow the business as well as support our local community.

There was a slight reduction in the business banking portfolio, but our customer numbers grew by 2%. Net Assets increased by over 9% with cash balance at \$1.9million.

Dividends

The company increased its dividend to shareholders by 9% paying 6.0 cents per share (2017: 5.5 cents) amounting to a total dividend of \$135,065 (2017: \$123,810).

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 note 20 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 branch 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 branch manager of the company except where the liability arises out of conduct involving the lack of good faith.

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

Directors' meetings

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

	Board Meetings Attended		Committee Meetings Attended									
			Finance & Audit		HR & Operations		Marketing		Community Engagement		Governance & Risk	
	A	B	A	B	A	B	A	B	A	B	A	B
Alan James Bardwell	11	10	-	-	-	-	-	-	-	-	-	-
Roman Zeno Tarnawsky	11	10	5	3	5	3	10	7	10	7	-	-
Sara Adams	11	7	-	-	5	5	-	-	10	4	-	-
John Gallu	11	8	-	-	-	-	10	10	-	-	-	-
Nirmal Singh Hansra	11	8	5	5	-	-	-	-	-	-	-	-
Linda June McDonald	11	10	-	-	5	5	-	-	-	-	-	-
Christopher Bradley Williamson	11	8	-	-	-	-	10	8	10	10	3	3
Rowenna Margaret Allabush	11	10	-	-	-	-	10	8	10	8	-	-
Vera Fiala	11	10	5	5	-	-	-	-	-	-	3	3
Toni Lorraine MacDermott*	11	3	-	-	-	-	-	-	10	5	3	3

A - eligible to attend

B - number attended

* Resigned 30 June 2018

Proceedings on behalf of the company

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

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

Non audit services

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

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

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

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

Auditor's independence declaration

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

Signed in accordance with a resolution of the board of directors at Lindfield, New South Wales on 24 September 2018.



Alan James Bardwell, Chair



Nirmal Singh 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 2018, I declare that, to the best of my knowledge and belief, there have been:

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

Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550
Dated: 24 September 2018

David Hutchings
Lead Auditor

Statement of Profit & Loss and Other Comprehensive Income

for the year ended 30 June 2018

	Notes	2018 \$	2017 \$
Revenue from ordinary activities	4	2,131,224	2,043,682
Employee benefits expense		(991,630)	(865,419)
Charitable donations, sponsorship, advertising and promotion		(102,880)	(110,900)
Occupancy and associated costs		(267,685)	(263,322)
Systems costs		(101,992)	(97,914)
Depreciation and amortisation expense	5	(71,170)	(72,547)
General administration expenses		(170,373)	(185,477)
Profit before income tax expense		425,494	448,103
Income tax expense	6	(117,054)	(123,256)
Profit after income tax expense		308,440	324,847
Total comprehensive income for the year attributable to the ordinary shareholders of the company:			
		308,440	324,847
Earnings per share		¢	¢
Basic earnings per share	23	13.70	14.43

Balance Sheet

for the year ended 30 June 2018

	Notes	2018 \$	2017 \$
ASSETS			
Current assets			
Cash and cash equivalents	7	1,912,637	1,590,786
Trade and other receivables	8	199,953	226,520
Inventory	9	48,500	-
Total current assets		2,161,090	1,817,306
Non-current assets			
Property, plant and equipment	10	190,793	235,944
Intangible assets	11	7,911	33,930
Deferred tax asset	12	34,406	23,144
Total non-current assets		233,110	293,018
Total assets		2,394,200	2,110,324
LIABILITIES			
Current liabilities			
Trade and other payables	13	227,517	103,384
Current tax liabilities	12	51,963	83,697
Provisions	14	84,426	72,481
Total current liabilities		363,906	259,562
Non-Current Liabilities			
Provisions	14	35,615	29,458
Total non-current liabilities		35,615	29,458
Total liabilities		399,521	289,020
Net assets		1,994,679	1,821,304
EQUITY			
Issued capital	15	1,258,525	1,258,525
Retained earnings	16	736,154	562,779
Total equity		1,994,679	1,821,304

Statement of Changes in Equity

for the year ended 30 June 2018

	Notes	Issued capital \$	Retained earnings \$	Total equity \$
Balance at 1 July 2016		1,258,525	361,742	1,620,267
Total comprehensive income for the year		-	324,847	324,847
Transactions with owners in their capacity as owners:				
Shares issued during period		-	-	-
Costs of issuing shares		-	-	-
Dividends provided for or paid	21	-	(123,810)	(123,810)
Balance at 30 June 2017		1,258,525	562,779	1,821,304
Balance at 1 July 2017		1,258,525	562,779	1,821,304
Total comprehensive income for the year		-	308,440	308,440
Transactions with owners in their capacity as owners:				
Shares issued during period		-	-	-
Costs of issuing shares		-	-	-
Dividends provided for or paid	21	-	(135,065)	(135,065)
Balance at 30 June 2018		1,258,525	736,154	1,994,679

Statement Cash Flows

for the year ended 30 June 2018

	Notes	2018 \$	2017 \$
Cash flows from operating activities			
Receipts from customers		2,305,388	2,179,705
Payments to suppliers and employees		(1,749,068)	(1,686,843)
Interest received		35,646	34,431
Income taxes paid		(160,050)	(132,895)
Net cash provided by operating activities	17	431,916	394,398
Cash flows from investing activities			
Payment of intangible assets		-	(24,283)
Net cash provided by/(used in) investing activities		-	(24,283)
Cash flows from financing activities			
Loans repaid		25,000	25,000
Dividends paid	21	(135,065)	(123,810)
Net cash used in financing activities		(110,065)	(98,810)
Net increase in cash held		321,851	271,305
Cash and cash equivalents at the beginning of the financial year		1,590,786	1,319,481
Cash and cash equivalents at the end of the financial year	7(a)	1,912,637	1,590,786

Notes to the financial statements

for the year ended 30 June 2018

Note 1. Summary of significant accounting policies

a) Basis of preparation

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

Compliance with IFRS

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

Critical accounting estimates

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

Historical cost convention

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

Comparative figures

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

Application of new and amended accounting standards

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

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

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

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

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

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

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

Notes to the financial statements continued

Note 1. Summary of significant accounting policies

a) Basis of preparation

Application of new and amended accounting standards (continued)

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

So far, the most significant impact identified is that the company will recognise new assets and liabilities for its operating leases of its branches. As at 30 June 2018, the company's future minimum lease payment under non-cancellable operating leases amount to \$302,591, on an undiscounted basis (see Note 18).

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

Economic dependency - Bendigo and Adelaide Bank Limited

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank®** branches at Lindfield and Turramurra, New South Wales.

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

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

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

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

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

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

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

Notes to the financial statements continued

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

b) Revenue

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

Revenue calculation

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

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

Core banking products

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

Margin

Margin is arrived at through the following calculation:

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

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

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

Commission

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

Fee income

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

Notes to the financial statements continued

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

b) Revenue (*continued*)

Discretionary financial contributions

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

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

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

Ability to change financial return

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

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

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

Monitoring and changing financial return

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

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

c) Income tax

Current tax

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

Notes to the financial statements continued

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

c) Income tax (*continued*)

Deferred tax

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

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 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 entity intends to settle its tax assets and liabilities on a

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 gain from a bargain purchase.

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) Inventory

Inventories are measured at the lower of cost and current replacement cost. Inventories acquired at no cost, or for nominal consideration, are valued at the current replacement cost as at the date of acquisition.

Notes to the financial statements continued

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

h) Property, plant and equipment

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

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

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

- leasehold improvements	5 - 15	years
- furniture and fittings	4 - 40	years

i) 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.

j) Payment terms

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

k) Borrowings

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

l) 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. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

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.

Notes to the financial statements continued

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

l) Financial instruments (*continued*)

(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*

Financial liabilities include borrowings, trade and other payables and non-derivative financial liabilities (excluding financial guarantees). They 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.

m) 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.

n) 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.

o) Issued capital

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

Notes to the financial statements continued

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

p) 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.

q) Goods and Services Tax

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

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

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

Note 2. Financial risk management

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

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

(i) Market risk

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

(ii) Price risk

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

(iii) Credit risk

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

(iv) Liquidity risk

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

(v) Cash flow and fair value interest rate risk

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

Notes to the financial statements continued

Note 2. Financial risk management (*continued*)

(vi) Capital management

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

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

The distribution limit is the greater of:

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

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

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

Note 3. Critical accounting estimates and judgements

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

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

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

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

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 carried-forward 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.

Notes to the financial statements continued

Note 3. Critical accounting estimates and judgements

Estimation of useful lives of assets

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

Impairment of assets

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

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

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

Note 4. Revenue from ordinary activities	2018	2017
	\$	\$
Operating activities:		
- services income	2,044,904	1,954,722
- market development fund	45,000	45,000
- rental income	7,533	7,143
Total revenue from operating activities	<u>2,097,437</u>	<u>2,006,865</u>
Non-operating activities:		
- interest received	33,787	36,817
Total revenue from non-operating activities	<u>33,787</u>	<u>36,817</u>
Total revenues from ordinary activities	<u>2,131,224</u>	<u>2,043,682</u>

Notes to the financial statements continued

Note 5. Expenses

	2018 \$	2017 \$
Depreciation of non-current assets:		
- furniture and fittings	4,974	5,214
- leasehold improvements	40,177	40,177
Amortisation of non-current assets:		
- franchise agreement	4,337	4,324
- establishment fee	-	4,258
- franchise renewal fee	21,682	18,574
	<u>71,170</u>	<u>72,547</u>
Bad debts	<u>363</u>	<u>37</u>

Note 6. Income tax expense

The components of tax expense comprise:

- Current tax	128,316	125,851
- Movement in deferred tax	(11,262)	(2,624)
- Under/(Over) provision of tax in the prior period	-	29
	<u>117,054</u>	<u>123,256</u>

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

Operating profit	425,494	448,103
Prima facie tax on profit from ordinary activities at 27.5% (2017: 27.5%)	117,011	124,224
Add tax effect of:		
- non-deductible expenses	43	-
- timing difference expenses	11,262	1,627
	<u>128,316</u>	<u>125,851</u>
Movement in deferred tax	(11,262)	(2,624)
Under/(Over) provision of income tax in the prior year	-	29
	<u>117,054</u>	<u>123,256</u>

Note 7. Cash and cash equivalents

Cash at bank and on hand	152,822	229,675
Term deposits	1,759,815	1,361,111
	<u>1,912,637</u>	<u>1,590,786</u>

Note 7.(a) Reconciliation to cash flow statement

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

Cash at bank and on hand	152,822	229,675
Term deposits	1,759,815	1,361,111
	<u>1,912,637</u>	<u>1,590,786</u>

Notes to the financial statements continued

Note 8. Trade and other receivables

	2018 \$	2017 \$
Current:		
Trade receivables	178,495	174,783
Prepayments	12,091	15,511
Other receivables and accruals	9,367	36,226
	<u>199,953</u>	<u>226,520</u>

Note 9. Inventory

Inventory		
At cost	<u>48,500</u>	<u>-</u>

Inventory held is based on a special fund raising project called Monopoly, based on the board game with a focus on the local area of Lindfield and Turramurra with the idea to provide local support and benefits to the community. The Boards are expected to be sold during the 2018/19 financial year.

Note 10. Property, plant and equipment

Leasehold improvements		
At cost	401,772	401,772
Less accumulated depreciation	(249,190)	(209,013)
	<u>152,582</u>	<u>192,759</u>
Furniture and fittings		
At cost	87,766	87,765
Less accumulated depreciation	(49,555)	(44,580)
	<u>38,211</u>	<u>43,185</u>
Total written down amount	<u>190,793</u>	<u>235,944</u>

Movements in carrying amounts:

Leasehold improvements		
Carrying amount at beginning	192,759	232,936
Additions	-	-
Disposals	-	-
Less: depreciation expense	(40,177)	(40,177)
Carrying amount at end	<u>152,582</u>	<u>192,759</u>
Furniture and fittings		
Carrying amount at beginning	43,185	48,399
Additions	-	-
Disposals	-	-
Less: depreciation expense	(4,974)	(5,214)
Carrying amount at end	<u>38,211</u>	<u>43,185</u>
Total written down amount	<u>190,793</u>	<u>235,944</u>

Notes to the financial statements continued

Note 11. Intangible assets

	2018 \$	2017 \$
Franchise fee		
At cost	97,018	97,018
Less: accumulated amortisation	(95,700)	(91,363)
	<u>1,318</u>	<u>5,655</u>
Establishment Fees		
At cost	70,000	70,000
Less: accumulated amortisation	(70,000)	(70,000)
	<u>-</u>	<u>-</u>
Renewal processing fee		
At cost	135,085	135,085
Less: accumulated amortisation	(128,492)	(106,810)
	<u>6,593</u>	<u>28,275</u>
Total written down amount	<u><u>7,911</u></u>	<u><u>33,930</u></u>

Note 12. Tax

Current:

Income tax payable	<u>51,963</u>	<u>83,697</u>
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Non-Current:

Deferred tax assets		
- accruals	3,764	3,709
- employee provisions	38,292	30,783
	<u>42,056</u>	<u>34,492</u>
Deferred tax liability		
- accruals	2,451	2,962
- property, plant and equipment	5,199	8,386
	<u>7,650</u>	<u>11,348</u>
Net deferred tax asset	<u><u>34,406</u></u>	<u><u>23,144</u></u>
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	<u><u>(11,262)</u></u>	<u><u>(2,623)</u></u>

Note 13. Trade and other payables

Current:

Trade creditors	58,550	26,167
Other creditors and accruals	168,967	77,217
	<u>227,517</u>	<u>103,384</u>

Notes to the financial statements continued

Note 14. Provisions

	2018	2017
	\$	\$
Current:		
Provision for annual leave	59,608	60,110
Provision for long service leave	24,818	12,371
	<u>84,426</u>	<u>72,481</u>
Non-Current:		
Provision for long service leave	<u>35,615</u>	<u>29,458</u>

Note 15. Issued capital

2,251,085 ordinary shares fully paid (2017: 2,251,085)	1,326,925	1,326,925
Less: equity raising expenses (Turrumurra)	(40,196)	(40,196)
Less: equity raising expenses (Lindfield)	(28,204)	(28,204)
	<u>1,258,525</u>	<u>1,258,525</u>

A bonus share issues on a 1:1 basis (924,160 shares) was issued to all existing shareholders on 6 June 2011. 402,765 shares issued pursuant to the prospectus of the Lindfield branch occurred on 22 October 2011.

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*.

Notes to the financial statements continued

Note 15. Issued capital (*continued*)

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 502 shareholders.

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

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

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

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

Note 16. Retained earnings

	2018 \$	2017 \$
Balance at the beginning of the financial year	562,779	361,742
Net profit from ordinary activities after income tax	308,440	324,847
Dividends provided for or paid	(135,065)	(123,810)
Balance at the end of the financial year	<u>736,154</u>	<u>562,779</u>

Notes to the financial statements continued

Note 17. Statement of cash flows

	2018 \$	2017 \$
Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities		
Profit from ordinary activities after income tax	308,440	324,847
Non cash items:		
- depreciation	45,151	45,391
- amortisation	26,019	27,156
Changes in assets and liabilities:		
- (increase)/decrease in receivables	1,567	(28,087)
- increase in other assets	(59,762)	(2,623)
- increase in payables	124,133	31,711
- increase in provisions	18,102	3,019
- decrease in current tax liabilities	(31,734)	(7,016)
Net cash flows provided by operating activities	<u>431,916</u>	<u>394,398</u>

Note 18. Leases

Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

Payable - minimum lease payments:

- not later than 12 months	132,799	223,818
- between 12 months and 5 years	170,152	395,228
	<u>302,951</u>	<u>619,046</u>

Each premises lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. The lease on the Turramurra branch premises expires in August 2018 and the lease on the Lindfield branch premises expires in November 2021.

Note 19. Auditor's remuneration

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

- audit and review services	6,000	7,100
- tax services	600	585
- non audit services	2,330	1,529
	<u>8,930</u>	<u>9,214</u>

Notes to the financial statements continued

Note 20. Director and related party disclosures

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

Alan James Bardwell
 Roman Zeno Tarnawsky
 Sara Adams
 John Gallu
 Nirmal Singh Hansra
 Linda June McDonald
 Christopher Bradley Williamson
 Rowenna Margaret Allabush
 Vera Fiala
 Toni Lorraine MacDermott (*Resigned 30 June 2018*)

Directors Shareholdings	2018	2017
Alan James Bardwell	1,000	1,000
Roman Zeno Tarnawsky	2,000	2,000
Sara Adams	-	-
Nirmal Singh Hansra	-	-
Linda June McDonald	6,000	6,000
Christopher Bradley Williamson	-	-
Rowenna Margaret Allabush	-	-
Vera Fiala	-	-
Toni Lorraine MacDermott (<i>Resigned 30 June 2018</i>)	-	-

There was no movement in directors shareholdings during the year.

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

	2018 \$	2017 \$
Transactions with related parties:		
Christopher Williamson is a director of Tower Brands Pty Ltd which provided website design, website hosting and graphic design services to the company during the financial year	288	1,809

Note 21. Dividends provided for or paid

a. Dividends paid during the year

Current year dividend		
100% (2017: 100%) franked dividend - 6 cents (2017: 5.5 cents) per share	<u>135,065</u>	<u>123,810</u>

The tax rate at which dividends have been franked is 27.5% (2017: 27.5%)

Notes to the financial statements continued

Note 21. Dividends provided for or paid (continued)	2018	2017
	\$	\$
b. Franking account balance		
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the beginning of the financial year	207,824	121,893
- franking credits that will arise from payment of income tax during the financial year	103,668	49,800
- Franking credits from payment of income tax following lodgement of annual income tax returns	56,382	83,093
- Franking debits from the payment of fully franked dividends	(51,232)	(46,962)
- Franking account balance as at the end of the financial year	316,642	207,824
- Franking credits that will arise from payment of income tax payable as at the end of the financial year	51,963	83,697
Net franking credits available	368,605	291,521

Note 22. 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.

Note 23. Earnings per share

(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	308,440	324,847
	Number	Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	2,251,085	2,251,085

Note 24. Events occurring after the reporting date

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

Note 25. Contingent liabilities and contingent assets

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

Notes to the financial statements continued

Note 26. Segment reporting

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

Note 27. Registered office/Principal place of business

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

Registered Office	Principal Place of Business
1273 Pacific Highway Turramurra NSW 2074	1273 Pacific Highway Turramurra NSW 2074
	Other place of business 318 Pacific Highway Lindfield NSW 2070

Notes to the financial statements continued

Note 28. Financial instruments

Financial Instrument Composition and Maturity Analysis

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

Financial instrument	Floating interest		Fixed interest rate maturing in						Non interest bearing		Weighted average	
			1 year or less		Over 1 to 5 years		Over 5 years					
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
Financial assets												
Cash and cash equivalents	152,620	229,275	1,759,815	1,361,111	-	-	-	-	202	400	1.82	2.40
Receivables	-	-	-	-	-	-	-	-	178,495	174,783	N/A	N/A
Financial liabilities												
Payables	-	-	-	-	-	-	-	-	58,550	26,167	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 2018, the effect on profit and equity as a result of changes in interest rate, with all other variables remaining constant would be as follows:

	2018 \$	2017 \$
Change in profit/(loss)		
Increase in interest rate by 1%	19,124	15,904
Decrease in interest rate by 1%	(19,124)	(15,904)
Change in equity		
Increase in interest rate by 1%	19,124	15,904
Decrease in interest rate by 1%	(19,124)	(15,904)

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 2018 and of its performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- (c) the audited remuneration disclosures set out in the remuneration report section of the directors' report comply with Accounting Standard AASB124 Related Party Disclosures and the Corporations Regulations 2001.

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



Alan James Bardwell, Chair



Nirmal Singh Hansra, Director

Signed on the 24th of September 2018.

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 audit of the financial statements

Our opinion

In our opinion, the financial report of Ku-ring-gai Financial Services Limited is in accordance with the *Corporations Act 2001*, including:

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

What we have audited

Ku-ring-gai Financial Services Limited's (the company) financial report comprises the:

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

Basis for opinion

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

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

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

Other information

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

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Independent Auditor's Report continued

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

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

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

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

Directors' responsibility for the financial report

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

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

Auditor's responsibility for the audit of the financial report

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

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



Andrew Frewin Stewart
61 Bull Street, Bendigo, 3550
Dated: 24 September 2018



David Hutchings
Lead Auditor



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