KU-RING-GAI FINANCIAL SERVICES LIMITED

ABN 56 103 129 184

ANNUAL REPORT 2020

Community Bank
Turramurra and Lindfield

Bendigo Bank

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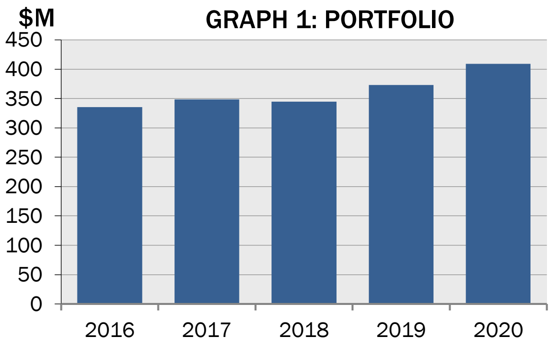
Contents

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 2020.

By any measure financial year 2020 ("FY20") has been an extraordinary and challenging year for the company. At an environmental level we have seen droughts followed by bushfires and even flooding. The COVID 19 pandemic has affected everyone with devastating health, social and economic impacts. At an industry level, as interest rates have moved even lower, net interest margins continue to be squeezed and the housing market outlook remains uncertain. Against this backdrop, the company has been remarkably resilient, recording significant portfolio growth, maintaining good profits and dividends and continuing to strongly serve our customers and the community.

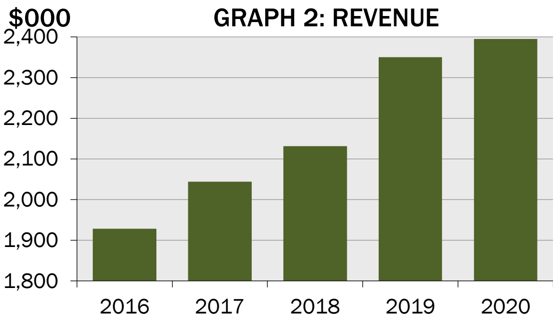


Our Performance

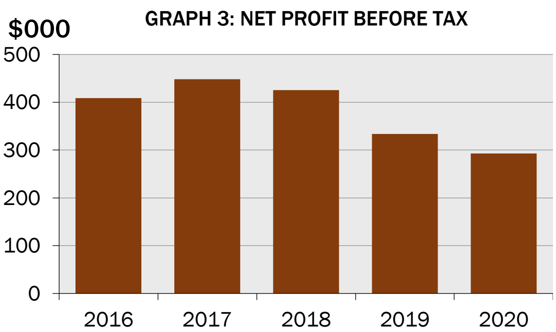
The company's financial results cover the operations of the Turramurra and Lindfield Community Bank. At 30 June 2020, the company banking business portfolio was $409 million, a 10% increase on last year (see Graph 1). This increase was driven predominantly by a $29 million (22%) increase in total loans and an $11 million (5%) increase in total deposits. The lending increase was particularly pleasing because it comprised significant origination from both branches and our mobile relationship banker, Sebastian Zhang, and was the highest annual loan growth recorded since the opening of the Lindfield branch.

The company earns most of its revenue from its share with Bendigo and Adelaide Bank ("the bank") of the net interest margin earned on the company's portfolio. Net interest margins have been declining across the industry as interest rates have got lower and the bank is no exception.

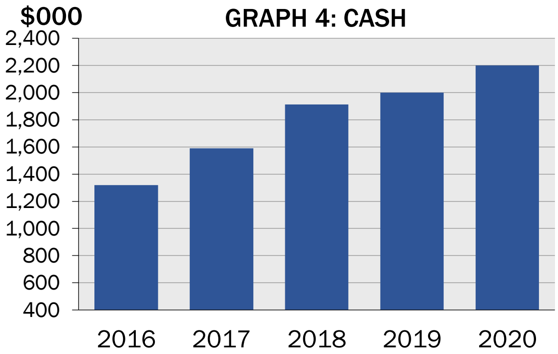
The growth in the portfolio however, has more than offset the impact of declining net interest margin so overall revenue increased by 2% to $2.40 million (see Graph 2). FY20 revenue did include Government COVID 19 support of $62,500 however FY19 also included a one-off revenue item of $82,000 from the monopoly initiative. The Board views this as an excellent result in a difficult year and reflects a return on the investment in recent years in building our customer and community presence and network.



Net profit before tax of $292,728 was down 12% on the prior year (see Graph 3). The reduction in profit despite a growth in revenue was due to a combination of factors. Employee expenses were higher reflecting a relatively low level of staff turnover compared to prior years. Due to the strong portfolio growth, the referral agent commission was higher. We have considerably improved the quality and control over management and financial reporting by bringing this function back in-house and there was a one-off cost of transition and higher ongoing cost to achieve this. Lastly, the adoption of the new lease accounting standard increased the profit and loss charge for our branch property leases.



The company's balance sheet remains strong, with year-end cash reserves of $2.2 million up from $2.0 million last year (see Graph 4).



Shareholder Dividend

During the year, the company paid a fully franked dividend of 6.25 cents per share which matched the dividend paid last year.

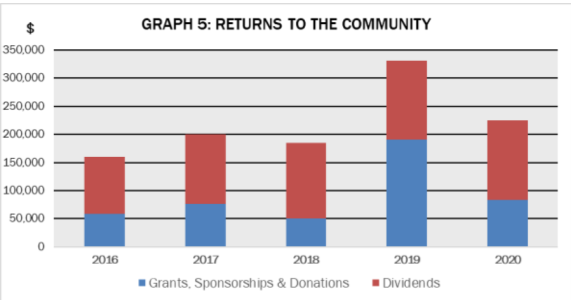
COVID-19

Since March 2020, in response to the threat of COVID-19, the staff of the company has either been operating at home or observing social distancing protocols at the branches. Where necessary as precautionary measures, staff have also been asked to self-isolate and work from home. The operations of the company and the service to customers have continued uninterrupted. The staff is commended for maintaining their commitment and productivity through this difficult time.

The main impact of COVID-19 for the company has been the necessary cancellation of planned community events but we hope to reinvigorate these activities once it is again safe to do so. COVID-19 so far does not seem to have significantly impacted business flow as the company has been able to maintain a healthy pipeline of new business. The company has also been mindful of the potential financial hardship to customers and we have increased our calling program to existing customers and been alert to circumstances where the Bank's hardship assistance may need to be accessed.

Our People

The Board has been very stable this year with no changes to the Board since my report last year. The Board now has a strong overall composition of skills and experience and I would like to thank all of the Directors for their continued hard work and commitment to the company. We continue to use the role of Board Observer as a pathway to renew Board positions and in August 2020 the Board was delighted to welcome Rune Henriksen as a Board Observer. Rune has a strong finance and commercial background with financial services experience, lives locally and has strong ties with the community.



During the year our Company Secretary Administrator, Elisabeth Rasul, who supports the Board and our Company Secretary, Ian Greentree, departed after several years of excellent service to the company. In Elisabeth's place we are delighted to welcome Viktoriya Kravets who is a Law graduate with strong Legal, Compliance and administrative skills.

Our Branch Manager, Dean Castell, will provide more details on his activities and the company's staff in his report. On behalf of the Board, I would like to again thank Dean and all the staff for the wonderful work they do and congratulate them on their achievements this year.

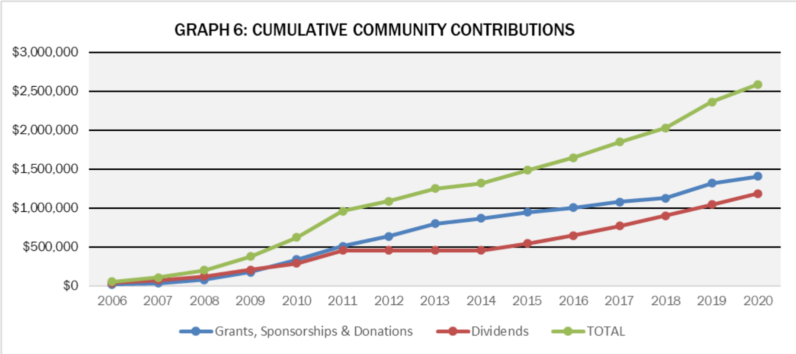
The company continues to have a strong relationship with the bank. On behalf of the Board, I would particularly like to thank the Bank's NSW North Coast Regional Manager, Alan Fardon, and NSW/ACT Community Business Manager, John Carvin, for their strong support to the company during the year.

Our Community

In a year that has caused devastation to many people, the company continues to be highly focused on supporting our community and building our community network. During the year we provided direct financial support to 40 community groups totalling $83,690 (see Graph 5). In addition, we facilitated matched fundraising initiatives that saw the community contribute a further $239,886 to community groups in need. Three main examples during the year were: the Community Pitch event that saw 25 local businesses in aggregate contribute $39,200 (the company $15,000) to 10 local community groups; the "Fund the Fight" campaign that raised $60,202 (the company $10,000) for the fledgling Killara Rural Fire Service; and $185,391 (the company $20,000) to the Hornsby Ku-ring-gai Women's Shelter. The community engagement report from our Community Development Manager, Sharon Franke, provides a fuller account of our community activities during the year.

Safe Place Appeal for HKWS

At the end of FY20 the cumulative contribution by the company since its inception to local community groups, including shareholders, is $2,588,476 million (see Graph 6).



Our Shareholders

My thanks once again to our more than 500 shareholders for your continued advocacy and support of the Community Bank model in Ku-ring-gai. It is greatly appreciated. We continue to try and improve the efficiency and cost of our communications with Shareholders by providing information on-line rather than by mail. Consequently, this year shareholders will be reading this Annual Report on-line rather than receiving a hard copy.

The 18th Annual General Meeting will be held on Wednesday 18th November 2020 commencing at 7.00pm. The location will be Turramurra Bowling Club and not the Lindfield Community Bank Branch. This year we would appreciate if all shareholders who would like to attend RSVP via email to secretary@KFSL.com.au so we can conduct the meeting while observing social distancing protocols.

Outlook and Conclusion

In the midst of the COVID 19 pandemic, there is a great deal of uncertainty about the medium-term impact on the economy, the banking industry, our community and customers, and consequently, our company. So far, we have been resilient and the company continues to maintain a healthy pipeline of business through the first 4 months of FY21. The company has a robust balance sheet and a strong and experienced team to see us through this turbulent period.

We are not ignoring though our desire to continue to grow the company and further improve the support and positive impact we can make to the Ku-ring-gai community. In this regard we are currently working with the Bank, as one of four Community Bank pilot initiatives in Australia, to shape the medium to long-term strategy and future of the company and the Community Bank model more broadly. This exciting initiative is currently in its early stages and we will provide more information to shareholders in the new year as the details become more apparent. In the meantime, we will continue to invest wisely in our people, marketing and community engagement and, as we have always done, focus on serving our customers well.

Alan Bardwell
Chairman

Branch Manager's Report

If I said that it was quite a different year this year it would be a major understatement. In spite of the challenges during the last few months, we have had one of the best growth years in our portfolio since before 2012. We carried our momentum on from the previous year and at YTD December 2019 we had growth of $18m in loans with a number of settlements booked in for the new year and $11m in deposits with our portfolio totalling $378m.

In regards to the end of 2019/20 growth results I am pleased to confirm the below:

Lending:
We settled a record $55m combined with the continued low discharges of $14m which was also pleasing to see and the standard loan paydowns, we achieved a $29m loan growth for 2019/20.

Deposits:
The second half of the financial year was quite different from the first as the growth was considerably down before climbing back up again. While these fluctuations are relatively standard with deposits we finished off strong with an $11.2 deposit growth for 2019/20.

Total Portfolio:
A second record was broken in 2019/20 with our total portfolio growing 10% to $409m. This is the first time our branches have exceeded $400m total portfolio and it was one of my personal long-term goals since joining this great team in 2016.

Their beautiful Game Collection

Also, we had a fantastic time at our first and very successful Community Pitch, please read about this and more in our Community Development Manager Sharon Franke's *Community Engagement Report.*

We had a few staff changes this year starting with Murray McDonnell who resigned in October and Ibrahim Bilen who in November relocated to Bendigo Bank Victoria as a Senior Customer Service Officer. We also had two new Customer Service Officer additions to our team, Kasun Kuruppu-Mudiyanselage started with us in January and Belinda Tait, who relocated from the Rozelle/Balmain branch, in June. I wish Murray and Ibrahim the best of luck with the next chapter of their lives and I am very much looking forward to seeing what Kasun and Belinda will bring to our team in 2020/21.

I wish to take this opportunity to say a very big thank you to all staff for their incredible efforts and congratulations for the record-breaking year. I say this each year but it's true, I really do consider myself very lucky to be a part of this team. I would also like to acknowledge and thank each of the volunteer Board of Directors, I have really enjoyed working with all of you and I am looking forward to seeing what FY21 has in store for us. Most importantly I would like to thank all of our Shareholders and customers for your ongoing support, if it wasn't for you none of this would be possible.

Dean Castell
Branch Manager

Community Engagement Report

The focus of Community Engagement remains 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 a voice of the community;
- To maintain an ongoing mutually beneficial relationship between our community and KFSL;
- Providing a return to KFSL on its investment in the community by increasing its customer base and level of banking business.

The financial year ending 30 June 2020, has been an unusual one – while we, like businesses everywhere, have been impacted by the Coronavirus pandemic the year has still included several significant projects.

Community Pitch 2019

In November we held our very first Community Pitch event. Community Pitch 2019 allowed us to join forces with 23 local businesses to provide a pool of $39,200 which was distributed to local community organisations on the night. The event is unique in that the ten community organisations each made a three-minute pitch to the audience of businesses as to why they needed funding and then the local businesses (Pitch Partners) distributed their pledged funds based on the strength of that pitch. It was a great night and we look forward to holding our next Community Pitch night when COVID-19 restrictions allow.

Following the fire in South Turramurra’s bush on November 12 we instigated a fundraiser for Killara Rural Fire Brigade - the newest rural fire brigade in NSW - offering to match up to the first $10,000 in funds donated by the public. As the bushfires expanded across both NSW and the whole country, we were overwhelmed by the support our local community showed, with the final result being a donation of $60,202 to Killara RFS. This sizable donation will mean that not only can Killara RFS finish outfitting their trucks, they will also be able to start the fit out of their new headquarters to be built on the site of the old Scout Hall in Killara.

Our year ended on a high note with our partnering at an end of the financial year fundraiser for the Hornsby Ku-ring-gai Women’s Shelter (HKWS). HKWS has been fundraising for the last three years with a view to being able to purchase a home of their own; with only three months left on their current lease and a shortfall of only $200,000 before they felt they were in a financial position to be able to purchase a property the time was right. Together we launched the Safe Place Appeal aiming to raise $200,000 in just 10 days – we donated $20,000 to kick the appeal off and were overwhelmed when more than 1,000 individuals, community groups and businesses joined us donating $185,391 by midnight on June 30. We are very proud to be a Community Partner to HKWS.

HKWS International Women's Day Breakfast

We provided financial support to 40 community groups during the year. Our focus has continued to be on using our connections within the community to enhance the support we can provide via introductions between groups, partnering in projects such as the Safe Place Appeal in support of HKWS, dollar matching, and using our branch as a hub for community collections. We have continued to provide sponsorship to a limited number of local community organisations; however, our primary

Tables built for Pymble Public School by Men's Shed

focus is to create an improved outcome for the whole community which has meant an emphasis on charitable organisations.

Over the year we contributed $83,690 to the local community in the form of grants, donations and sponsorships. However, we were able to increase this figure to $323,576 via programs such as Community Pitch 2019, Fund the Fight for Killara RFS and the Safe Place Appeal in support of HKWS.

Our staff and directors have once again attended a variety of community events and given hours of their own time to support the Ku-ring-gai community over the last twelve months. We have continued to support the community in a hands-on way via our Volunteer Program with staff volunteering at both Meals on Wheels and Hornsby Connect on a regular basis.

Anzac Cookies baked by CWA - given to Meals on Wheels

Our cumulative contributions to local community groups, including shareholders, since the company's inception is now $2,593,373.

Sharon Franke

Community Development Manager

Bendigo and Adelaide Bank report

For year ending 30 June 2020

In the 20-plus years since the opening of the very first Community Bank branch, it's fair to say we haven't seen a year quite like 2020.

After many years of drought, the 2019 calendar year ended with bushfires burning across several states. A number of our Community Bank companies were faced with an unprecedented natural disaster that impacted lives, homes, businesses and schools in local communities.

As fires took hold, Bendigo and Adelaide Bank's head office phones started to ring, emails came in from all over the world and our customers, and non-customers, headed into our branches to donate to an appeal that we were still in the process of setting up.

Our reputation as Australia's most trusted bank and the goodwill established by 321 Community Bank branches across the country meant that people instinctively knew that Bendigo, and our Community Bank partners, would be there to help. An appeal was established and donations were received in branch and online from 135,000 donors from all around the world. More than $45 million was donated.

Just as the fires had been extinguished and the Bank's Community Enterprise Foundation was working with government, not-for-profit organisations and impacted communities to distribute donations, the global COVID-19 pandemic arrived.
The impact of this pandemic was, and continues to be, more than about health. The impacts are far-reaching and banking is not immune. Your support as a shareholder, and a customer, of your local Community Bank company has never been so important.

You should be proud of your investment in your local Community Bank company. As the Australian workforce had to adjust its way of working, your Community Bank branch staff were classified as essential workers and turned up for work every day throughout the pandemic to serve your local customers.

Your Community Bank company, led by your local directors, were committed to supporting local economies. Often it was the little things like purchasing coffees and meals from local cafes, not only for their branch staff but for other essential workers (teachers, nurses, hospital support staff, ambulance and police officers and aged care workers). This not only supported essential workers also supported many local businesses when they needed it the most.

What we've discovered in 2020 is that in times of crisis, Australia's Community Bank network has unofficially become Australia's 'second responder'. Local organisations and clubs look to their local Community Bank companies not only for financial assistance, but to take the lead in connecting groups and leading the community through a crisis.

So, what does this all mean? For Bendigo and Adelaide Bank, it reinforces the fact that you are a shareholder of a unique and caring company – run by locals to benefit not only your community but those in need.

As Australia's 5th largest bank with more than 1.9 million customers we are proud to partner with your community.

If 2020 has shown us anything, it's that we're stronger for the partnerships we have with the communities we operate in.
On behalf of Bendigo and Adelaide Bank, we thank all of our Community Bank company directors and shareholders and your branch staff and customers for your continued support throughout the year.

Mark Cunneen

Head of Community Support
Bendigo and Adelaide Bank

Directors' Report

The directors present their financial statements of the company for the financial year ended 30 June 2020.

Directors

The directors of the company who held office during or since the end of the financial year are:

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 10 years to February 2017 as Chief Financial Officer and then Chief Risk Officer at ASX Limited. Alan is Chairman of RT Health Ltd and a non-executive director of Transport Health Pty Ltd, Australian Military Bank, ClearView Life Nominees Pty Ltd and the Financial Services Institute of Australasia. Alan is also 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 ordinary shares

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 Turramurra 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 Deputy Chairman on 1 July 2014.
Special responsibilities: Chair of Finance, Risk and Governance Committee, Member of HR Committee and Strategic Planning Committee.
Interest in shares: 2,000 ordinary shares

Sara Adams
Non-executive 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 Customer and Community Committee. Member of HR and Strategic Planning Committees.
Interest in shares: nil share interest held

John Gallu
Non-executive director
Occupation: Business Management Consultant

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 Customer and Community Committee
Interest in shares: nil share interest held

Linda June McDonald
Non-executive director
Occupation: Executive Coach

Qualifications, experience and expertise: BBSc, 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 human resource 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 Committee
Interest in shares: 6,000 ordinary shares

Christopher Bradley Williamson
Non-executive 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 Finance, Governance & Risk Committees.
Interest in shares: nil share interest held

Rowenna Margaret Allabush
Non-executive director
Occupation: Managing Director

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: Member of Customer and Community Committee.
Interest in shares: nil share interest held

Himal Suneth Randeniya
Non-executive director
Occupation: Managing Director - Future Stars Early Learning

Qualifications, experience and expertise: Himal is a Director of Future Starts Early Learning Centres. His life's purpose is helping shape an extraordinary system of education that creates a powerful future for all children and students. After graduating with a Bachelor of Science and Bachelor of Law from University of Sydney, Himal started his life as a management consultant with a particular focus in Communications, Media and Telecommunications. Among Himal's other accomplishments, he has been chosen to represent Australia as part of the G20 delegation and is also a Non-Executive Director on the Board of Workflows, Live Well Developments, and the Early Education Company. After successfully exiting his first technology company, Project Academy, in 2013, Himal is now a mentor to various high-growth technology start-ups through the Blackbird's Startmate program and is actively involved in the Australian start up ecosystem.
Special responsibilities: Member of Customer and Community Committee.
Interest in shares: nil share interest held

Adrian Gordon Fong
Non-executive director
Occupation: Principal Lawyer and Legal Director

Qualifications, experience and expertise: B Com, LLB, LLM, Legal Practitioner of the Supreme Court of NSW, Practising Principal Member of Law Society of NSW, Member of NSW Chamber of Commerce. Adrian resides in St Ives and is involved with local sporting clubs and community groups. He has practised as a commercial lawyer for over 20 years, and was previously a corporate and commercial partner for a large national law firm. Adrian is now the principal of his own corporate and commercial legal practice based in Sydney. He specialises in business acquisitions and divestments, franchise law, finance, corporate governance and corporate restructures, and distribution and consumer law.
Special responsibilities: Member of Finance, Risk and Governance Committee
Interest in shares: nil share interest held

Amanda Faith Descoeudres
Non-executive director (appointed 22 July 2019)
Occupation: Chartered Accountant

Qualifications, experience and expertise: Amanda has a Bachelor of Commerce and Bachelor Arts (Asian Studies) from the Australian National University, and is a Chartered Accountant and Graduate of The Australian Institute of Company Directors. Amanda has over 20 years experience working both in professional services and a variety of corporate roles, including most recently as Group Financial Controller of Origin Energy Limited. She has a broad range of commercial experience having spent 12 years working in the Deals team at PwC. During this time she was involved in a range of strategic transactions from mergers and acquisitions to IPOs, restructuring and refinancing engagements. Amanda has lived in the Ku-ring-gai area since 2007 and is active in the local community, including as Treasurer of the 2nd Gordon Scout Group.
Special responsibilities: Member of Finance, Risk and Governance Committee.
Interest in shares: nil share interest held

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.

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 currently works in the equipment hire and road safety sectors. He is also a Director and Company Secretary of Harbord Financial Services Limited and Company Secretary of Berowra & District Financial Services Limited and North Ryde Community Finance Limited.
Interest in Shares Nil.

Principal Activity

The principal activity of the company during the financial year was facilitating Community Bank services under management rights of Bendigo and Adelaide Bank Limited (Bendigo Bank).

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

Operating results

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

Year ended	Year ended
30 June 2020	30 June 2019
$	$
221,983	240,847

Directors' interests

	Fully paid ordinary shares		
	Balance at start of the year	Changes during the year	Balance at end of the year
Alan James Bardwell	1,000	-	1,000
Roman Zeno Tarnawsky	2,000	-	2,000
Sara Adams	-	-	-
John Gallu	-	-	-
Linda June McDonald	6,000	-	6,000
Christopher Bradley Williamson	-	-	-
Rowenna Margaret Allabush	-	-	-
Himal Suneth Randeniya	-	-	-
Adrian Gordon Fong	-	-	-
Amanda Faith Descoeudres	-	-	-

No debentures or rights have been granted in previous financial years or during the current financial year.

Dividends

During the financial year, the following dividends were provided for and paid.

	Cents per share	Total amount
		$
Final fully franked dividend	6.25	140,693
Total amount	6.25	140,693

New Accounting Standards implemented

The company has implemented AASB 16: Leases (AASB 16) for the first time in the current period. AASB 16 has been applied using the modified retrospective approach by recognising the cumulative effect of initially applying AASB 16 as an adjustment to the opening balance of equity at 1 July 2019. Comparative information has not been restated and continues to be reported under AASB 117: Leases. See note 4 for further details.

Significant changes in the state of affairs

During the financial year, the Australian economy was greatly impacted by COVID-19. Bendigo Bank, as franchisor, announced a suite of measures aimed at providing relief to customers affected by the COVID-19 pandemic. The uncertain economic conditions have not materially impacted the company's earnings for the financial year. As the pandemic continues to affect the economic environment, uncertainty remains on the future impact of COVID 19 to the company's operations.

In the opinion of the directors there were no other 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 to facilitate banking services for the community.

Environmental regulation

The company is not subject to any significant environmental regulation.

Directors' benefits

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

Indemnification and insurance of directors and officers

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

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

Directors' meetings

The number of directors' meetings (including meetings of committees of directors) attended by each of the directors of the company during the financial year were:

	Board Meeting Attended		Committee Meetings Attended					
			Finance, Governance & Risk		Customer & Community		Human Resources	
	E	A	E	A	E	A	E	A
Alan James Bardwell	11	10	-	-	-	-	5	4
Roman Zeno Tarnawsky	11	10	5	5	-	-	5	5
Sara Adams	11	9	-	-	11	11	5	5
John Gallu	11	9	-	-	11	11	-	-
Linda June McDonald	11	11	-	-	-	-	5	5
Christopher Bradley Williamson	11	10	5	5	-	-	-	-
Rowenna Margaret Allabush	11	10	-	-	11	9	-	-
Himal Suneth Randeniya	11	9	-	-	11	10	-	-
Adrian Gordon Fong	11	9	5	5	-	-	-	-
Amanda Faith Descoeudres	11	10	5	5	-	-	-	-

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 note 28 to the accounts.

The board of directors has considered the non-audit services provided during the year by the auditor and, in accordance with the advice received from the Finance, Risk and Governance Committee, is satisfied that the provision of the non-audit services is compatible with, and 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, Risk and Governance Committee to ensure they do not impact on the impartiality, integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the company, acting as an advocate for the company or jointly sharing risks 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 17.

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

Alan James Bardwell, Chair

Dated this 23rd day of September 2020

Auditor's Independence Declaration

Partners in success

Chartered Accountants

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

Lead auditor's independence declaration under section 307C of the *Corporations Act 2001* to the directors of 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 2020, 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: 23 September 2020

Joshua Griffin
Lead Auditor

Statement of Profit & Loss and Other Comprehensive Income

for the year ended 30 June 2020

	Notes	2020 $	2019 $
Revenue from contracts with customers	8	2,249,478	2,160,371
Other revenue	9	108,436	133,333
Finance income	10	37,186	37,934
Gross profit from trading	11	-	21,045
Employee benefit expenses	12c)	(1,184,723)	(1,111,240)
Charitable donations, sponsorship, advertising and promotion		(183,446)	(256,805)
Occupancy and associated costs		(52,620)	(279,312)
Systems costs		(94,681)	(101,185)
Depreciation and amortisation expense	12a)	(268,065)	(72,883)
Finance costs	12b)	(67,252)	-
General administration expenses		(251,585)	(196,524)
Profit before income tax expense		**292,728**	**334,734**
Income tax expense	13a)	(70,745)	(93,887)
Profit after income tax expense		**221,983**	**240,847**
Total comprehensive income for the year attributable to the ordinary shareholders of the company:		**221,983**	**240,847**
Earnings per share		¢	¢
- Basic and diluted earnings per share:	31a)	9.86	10.70

Statement of Financial Position
as at 30 June 2020

	Notes	2020 $	2019 $
ASSETS			
Current assets			
Cash and cash equivalents	14a)	2,203,022	1,997,972
Trade and other receivables	15a)	191,172	200,963
Current tax assets	19a)	5,051	-
Total current assets		**2,399,245**	**2,198,935**
Non-current assets			
Property, plant and equipment	16a)	107,188	152,699
Right-of-use assets	17a)	1,308,680	-
Intangible assets	18a)	87,292	113,551
Deferred tax asset	19b)	98,866	46,626
Total non-current assets		**1,602,026**	**312,876**
Total assets		**4,001,271**	**2,511,811**
LIABILITIES			
Current liabilities			
Trade and other payables	20a)	171,853	163,405
Current tax liabilities	19a)	-	4,098
Lease liabilities	21b)	179,081	-
Employee benefits	23a)	187,620	115,071
Total current liabilities		**538,554**	**282,574**
Non-current liabilities			
Trade and other payables	20b)	61,237	91,854
Lease liabilities	21c)	1,209,169	-
Employee benefits	23b)	42,140	42,550
Provisions	22a)	45,205	-
Total non-current liabilities		**1,357,751**	**134,404**
Total liabilities		**1,896,305**	**416,978**
Net assets		**2,104,966**	**2,094,833**
EQUITY			
Issued capital	24a)	1,258,525	1,258,525
Retained earnings	25	846,441	836,308
Total equity		**2,104,966**	**2,094,833**

Statement of Changes in Equity
for the year ended 30 June 2020

	Notes	Issued capital $	Retained earnings $	Total equity $
Balance at 1 July 2018		1,258,525	736,154	1,994,679
Total comprehensive income for the year		-	240,847	240,847
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	30a)	-	(140,693)	(140,693)
Balance at 30 June 2019		**1,258,525**	**836,308**	**2,094,833**
Balance at 1 July 2019		1,258,525	836,308	2,094,833
Effect of AASB 16: Leases	3d)	-	(71,157)	(71,157)
Restated balance at 1 July 2019		1,258,525	765,151	2,023,676
Total comprehensive income for the year		-	221,983	221,983
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	30a)	-	(140,693)	(140,693)
Balance at 30 June 2020		**1,258,525**	**846,441**	**2,104,966**

Statement of Cash Flows

for the year ended 30 June 2020

	Notes	2020 $	2019 $
Cash flows from operating activities			
Receipts from customers		2,584,275	2,574,921
Payments to suppliers and employees		(1,869,432)	(2,205,805)
Interest received		35,448	41,515
Lease payments (interest component)	12b)	(65,305)	-
Lease payments not included in the measurement of lease liabilities	12d)	(36,072)	-
Income taxes paid		(105,143)	(153,972)
Net cash provided by operating activities	26	**543,771**	**256,659**
Cash flows from investing activities			
Payments for property, plant and equipment		(1,527)	(8,994)
Proceeds from sale of property, plant and equipment		-	386
Payments for intangible assets		(26,368)	(26,368)
Net cash used in investing activities		**(27,895)**	**(34,976)**
Cash flows from financing activities			
Lease payments (principal component)	21a)	(170,088)	-
Dividends paid - current	30a)	(140,693)	(140,693)
Dividends paid - historical		(45)	-
Net cash used in financing activities		**(310,826)**	**(140,693)**
Net cash increase in cash held		**205,050**	**80,990**
Cash and cash equivalents at the beginning of the financial year		1,997,972	1,916,982
Cash and cash equivalents at the end of the financial year	14a)	**2,203,022**	**1,997,972**

Notes to the financial statements
for the year ended 30 June 2020

Note 1 Reporting entity

This is the financial report for Ku-ring-gai Financial Services Limited (the company). The company is a for profit entity limited by shares, and incorporated and domiciled in Australia. The registered office and principal place of business is:

1273 Pacific Highway
Turramurra NSW 2074

Further information on the nature of the operations and principal activity of the company is provided in the directors' report. Information on the company's related party relationships is provided in Note 29.

Note 2 Basis of preparation and statement of compliance

Basis of preparation and statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards and Interpretations adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

The financial statements have been prepared on an accrual and historical cost basis, except for certain financial instruments that are measured at fair value at the end of each reporting period.

The financial report is presented in Australian dollars and all values are rounded to the nearest dollar, unless otherwise stated.

These financial statements for the year ended 30 June 2020 were authorised for issue in accordance with a resolution of the directors on 23 September 2020.

Note 3 Changes in accounting policies, standards and interpretations

The company adopted AASB 16 *Leases* from 1 July 2019.

AASB 16: Leases (AASB 16) has been applied using the modified retrospective approach by recognising the cumulative effect of initially applying AASB 16 as an adjustment to the opening balance of equity at 1 July 2019. Comparative information has not been restated and continues to be reported under AASB 117: Leases and Interpretation 4 "Determining whether an arrangement contains a lease".

Notes to the financial statements continued

Note 3 Changes in accounting policies, standards and interpretations ***(continued)***

a) Definition of a lease

On transition to AASB 16, the company elected to apply the practical expedient to grandfather the assessment of which contracts contain leases. The company applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and Interpretation 4 were not reassessed for whether there is a lease under AASB 16.

b) As a lessee

As a lessee, the company leases assets including property and IT equipment. The company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to the ownership of the underlying asset to the company. Under AASB 16, the company recognises right-of-use assets and lease liabilities for most of these leases (i.e. these leases are on balance sheet).

Leases classified as operating leases under AASB 117

Previously, the company classified property leases as operating leases under AASB 117. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the company's incremental borrowing rate as at 1 July 2019.

Right-of-use assets are measured at their carrying amount as if AASB 16 had been applied since the lease commencement date, discounted using the company's incremental borrowing rate at the date of initial application.

The company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The company has used a number of practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117. The practical expedients include that the company:

- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term on contracts that have options to extend or terminate.

c) As a lessor

The company is not a party in any significant sub leasing arrangements where it is a lessor. As such, the company has not made any adjustments on transition to AASB 16 for leases in which it acts as a lessor.

Notes to the financial statements continued

Note 3 Changes in accounting policies, standards and interpretations *(continued)*

d) Impact on financial statements

On transition to AASB 16, the company recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

Impact on equity presented as increase (decrease)	Note	1 July 2019 $
Asset		
Right-of-use assets - land and buildings	17b)	1,503,448
Deferred tax asset	19b)	26,991
Liability		
Lease liabilities	21a)	(1,558,338)
Provision for make-good	22b)	(43,258)
Equity		
Retained earnings		(71,157)

When measuring lease liabilities for leases that were classified as operating leases, the company discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted average rate applied is 4.40%.

Lease liabilities reconciliation on transition

Operating lease disclosure as at June 2019	659,374
Add: additional options now expected to be exercised	1,327,663
Less: AASB 117 lease commitments reconciliation	(137,423)
Less: present value discounting	(291,276)
Lease liability as at 1 July 2019	1,558,338

Notes to the financial statements continued

Note 4 Summary of significant accounting policies

The company has consistently applied the following accounting policies to all periods presented in these financial statements, except if mentioned otherwise (see also Note 3).

a) Revenue from contracts with customers

The company has entered into a franchise agreement with Bendigo Bank. The company delivers the banking and financial services of Bendigo Bank to its community. The franchise agreement provides for a share of interest, fee, and commission revenue earned by the company. Interest margin share is based on a funds transfer pricing methodology which recognises that income is derived from deposits held, and that loans granted incur a funding cost. Fees are based on the company's current fee schedule and commissions are based on the agreements in place. All margin revenue is recorded as non-interest income when the company's right to receive the payment is established.

The company acts as an agent under the franchise agreement and revenue arises from the rendering of services through its franchise agreement.

Revenue is recognised on an accruals basis, at the fair value of consideration specified in the franchise agreement. Under AASB 15 *Revenue from Contracts with Customers* (AASB 15), revenue recognition for the company's revenue stream is as follows:

Revenue	Includes	Performance obligation	Timing of recognition
Franchise agreement profit share	Margin, commission, and fee income	When the company satisfies its obligation to arrange for the services to be provided to the customer by the supplier (Bendigo Bank as franchisor).	On completion of the provision of the relevant service. Revenue is accrued monthly and paid within 10 business days after the end of each month.

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 Bank 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.

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 Bank for a deposit,
- *minus* any costs of funds i.e. interest applied by to fund a loan.

The company is entitled to a share of the margin earned by Bendigo Bank. If this reflects a loss, the company incurs a share of that loss.

Commission

Commission revenue is in the form of commission generated for products and services sold. This commission is recognised at a point in time which reflects when the company has fulfilled its performance obligation.

The company receives trailing commission for products and services sold. Ongoing trailing commission payments are recognised on receipt as there is insufficient detail readily available to estimate the most likely amount of income without a high probability of significant reversal in a subsequent reporting period. The receipt of ongoing trailing commission income is outside the control of the company, and is a significant judgement area.

Notes to the financial statements continued

Note 4 Summary of significant accounting policies *(continued)*

a) Revenue from contracts with customers *(continued)*

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.

Core banking products

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

Ability to change financial return

Under the franchise agreement, Bendigo Bank 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 Bank 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.

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

b) Other revenue

The company's activities include the generation of income from sources other than the core products under the franchise agreement. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and can be reliably measured.

Revenue	Revenue recognition policy
Cash flow boost	Cash flow boost income is recognised when the right to the payment is established (e.g. monthly or quarterly in the activity statement).
Gross profit from trading	Monopoly sales income and cost of goods sold expense are recognised at the point of sale.
Monopoly sponsorship income	Monopoly sponsorship income is recognised as it is received.
Other income	All other revenues that did not contain contracts with customers are recognised as goods and services are provided.

All revenue is stated net of the amount of Goods and Services Tax (GST).

Notes to the financial statements continued

Note 4 Summary of significant accounting policies *(continued)*

b) Other revenue *(continued)*

Cash flow boost

During the financial year, in response to the COVID-19 outbreak, *Boosting Cash Flow for Employers (Coronavirus Economic Response Package) Act 2020* (CFB Act) was enacted. The purpose was to provide temporary cash flow to small and medium sized businesses that employ staff and have been affected by the economic downturn associated with COVID-19.

The amounts received or receivable is in relation to amounts withheld as withholding tax reported in the activity statement. This essentially subsidises the company's obligation to remit withholding tax to the Australian Taxation Office. For reporting purposes, the amounts subsidised are recognised as revenue.

The amounts are not assessable for tax purposes and there is no obligation to repay the amounts.

Monopoly sponsorship income

During the prior financial year a one-off fund raising project called Monopoly was conducted. It was based on the board game with a focus on the Ku-Ring-Gai local area. Proceeds raised provided local support and benefits to the community.

c) Economic dependency - Bendigo Bank

The company has entered into a franchise agreement with Bendigo Bank that governs the management of the Community Bank.

The company is economically dependent on the ongoing receipt of income under the franchise agreement with Bendigo Bank. The directors have no reason to believe a new franchise arrangement under mutually acceptable terms will not be forthcoming following expiry in October 2023.

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

All deposits are made with Bendigo Bank, and all personal and investment products are products of Bendigo Bank, 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 Bank, must be approved by Bendigo Bank. All credit transactions are made with Bendigo Bank, and all credit products are products of Bendigo Bank.

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 Bank 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.

Note 4 Summary of significant accounting policies *(continued)*

c) Economic dependency - Bendigo Bank *(continued)*

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

- the design, layout and fit out of the Community Bank premises
- 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.

d) Employee benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for salary and wages where an employee has provided the service but payment has not yet occurred at the reporting date. They are measured at the amount expected to be paid. Non-accumulating sick leave is expensed when the leave is taken and measured at the rates paid or payable.

An annual leave liability is recognised for the amount expected to be paid if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

Defined superannuation contribution plans

The company contributes to a defined contribution plan. Obligations for superannuation contributions to defined contribution plans are expensed as the related service is provided.

Other long-term employee benefits

The company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior reporting periods.

That benefit is discounted to determine its present value. Consideration is given to expected future wage and salary levels plus related on-costs, experience of employee departures, and years of service achieved. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Remeasurements are recognised in profit or loss in the period in which they arise.

Notes to the financial statements continued

Note 4 Summary of significant accounting policies *(continued)*

e) Taxes

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current income tax

Current tax assets and liabilities are measured at amounts expected to be recovered from or paid to the taxation authorities. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised for all deductible temporary differences, carried-forward tax losses, and unused tax credits to the extent that it is probable that future taxable profits will be available against which they can be used.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax is measured at the rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except:

- when the amount of GST incurred on a sale or purchase of assets or services is not payable to or 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 revenue or expense item.
- when 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 statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

f) Cash and cash equivalents

For the purposes of the statement of financial position and statement of cash flows, cash and cash equivalents comprise: cash on hand and deposits held with banks that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value.

Notes to the financial statements continued

Note 4	Summary of significant accounting policies *(continued)*

g) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that there are additional future economic benefits associated with the expenditure and they will flow to the company.

Depreciation

Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using the straight-line over method their estimated useful lives, and is recognised in profit or loss.

The estimated useful lives of property, plant and equipment for the current and comparative periods are as follows:

Asset class	Method	Useful life
Leasehold improvements	Straight-line	5 to 10 years
Furniture, fixtures and fittings	Straight-line	1 to 40 years

Depreciation methods, useful life, and residual values are reviewed at each reporting date and adjusted if appropriate.

h) Intangible assets

Intangible assets of the company relate to the franchise fees paid to Bendigo Bank which convey the right to operate the Community Bank franchise.

Recognition and measurement

Intangible assets are measured on initial recognition at cost.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Amortisation

Intangible assets are amortised over their useful life and assessed for impairment whenever impairment indicators are present.

The estimated useful life and amortisation method for the current and comparative periods are as follows:

Asset class	Method	Useful life
Franchise fee	Straight-line	Over the franchise term (5 years)
Franchise renewal process fee	Straight-line	Over the franchise term (5 years)

Amortisation methods, useful life, and residual values are reviewed at each reporting date and adjusted if required.

Notes to the financial statements continued

Note 4 Summary of significant accounting policies *(continued)*

i) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The company's financial instruments include trade debtors and creditors, cash and cash equivalents and leases.

Recognition and initial measurement

Trade receivables are initially recognised when they originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value. Trade receivables are initially measured at the transaction price.

Classification and subsequent measurement

<u>Financial liabilities - classification, subsequent measurement and gains and losses</u>

Financial liabilities (including trade payables) are classified as measured at amortised cost and are subsequently measured using the effective interest method. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

<u>Financial assets</u>

The company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

<u>Financial liabilities</u>

Each reporting period the company derecognises a financial liability when its contractual obligations are discharged, cancelled, or they expire.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

j) Impairment

The company determines whether a loss allowance for expected credit losses on its trade receivables is required.

ECL's are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due and all cash flows expected to be received.

The franchise agreement limits the company's credit exposure to one financial institution, being Bendigo Bank. Due to the reliance on Bendigo Bank the company has reviewed the credit ratings provided by Standard & Poors, Moody's and Fitch Ratings to determine the level of credit risk. The company also performed a historical assessment of receivables from Bendigo Bank and found no instances of default. As a result no impairment loss allowance has been made in relation to the Bendigo Bank receivable as at 30 June 2020.

Note 4 Summary of significant accounting policies *(continued)*

j) Impairment *(continued)*

Non-financial assets

At each reporting date, the company reviews the carrying amount of its non-financial assets (other than contracts assets, and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The company has assessed for impairment indicators and noted no material impacts on the carrying amount of non-financial assets.

k) Issued capital

Ordinary shares

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.

l) Make good 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.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Provisions recognised in the current and comparative periods are to restore the premises under a 'make-good' clause.

The company is required to restore the leased premises to their original condition at the end of the lease term. A provision has been recognised for the present value of the estimated expenditure required to do this and to remove any leasehold improvements, ATM installed at the branch, and incidental damage caused from the removal of assets.

m) Leases

Policy applicable from 1 July 2019

At inception of a contract, the company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

This policy is applied to contracts entered into, on or after 1 July 2019.

<u>As a lessee</u>

For leases of property the company has elected not to separate lease and non-lease components and account for the lease and non-lease components as a single lease component.

Note 4 Summary of significant accounting policies *(continued)*

m) Leases *(continued)*

Policy applicable from 1 July 2019 (continued)

As a lessee *(continued)*

The company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore the underlying asset less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the outstanding lease payments at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the company's incremental borrowing rate.

The company determines its incremental borrowing rate by obtaining interest rates from funding sources and where necessary makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; and
- lease payments in an option renewal period if the group is reasonably certain to exercise that option.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate. If the company changes its assessment of whether it will exercise an extension or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The company has elected not to recognise right-of-use assets and lease liabilities for leases of short-term leases and low-value assets, including IT equipment. The company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

A short-term lease is a lease that, at commencement date, has a lease term of 12 months or less.

Notes to the financial statements continued

Note 4 Summary of significant accounting policies *(continued)*

m) Leases *(continued)*

As a lessor

The company is not a party in any significant sub leasing arrangements where it is a lessor. As such, the company has not made any adjustments on transition to AASB 16 for leases in which it acts as a lessor.

Policy applicable before 1 July 2019

For contracts entered into before 1 July 2019, the company determined whether the arrangement was or contained a finance lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed the right to use an asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a lessee

In the comparative period all of the company's leases were classified as operating leases. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Any lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

As a lessor

The company is not a party to any significant sub leasing arrangements where it is a lessor.

n) Standards issued but not yet effective

A number of new standards are effective for annual reporting periods beginning after 1 January 2020, however the changes are not expected to have a significant impact on the company's financial statements.

Note 5 Significant accounting judgements, estimates, and assumptions

In preparing these financial statements, management has made judgements and estimates that affect the application of the company's accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Notes to the financial statements continued

Note 5 Significant accounting judgements, estimates, and assumptions *(continued)*

a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

<u>Note</u>	<u>Judgement</u>
- Note 21 - leases:	
a) control	a) whether a contract is or contains a lease at inception by assessing whether the company has the right to control the use of an identified asset for a period of time in exchange for consideration;
b) lease term	b) whether the company is reasonably certain to exercise extension options, termination periods, and purchase options;
c) discount rates	c) judgement is required to determine the discount rate, where the discount rate is the company's incremental borrowing rate if the rate implicit in the lease cannot be readily determined. The incremental borrowing rate is determined with reference to factors specific to the company and underlying asset including: - the amount; - the lease term; and - economic environment.

b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at 30 June 2020 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

<u>Note</u>	<u>Assumptions</u>
- Note 19 - recognition of deferred tax assets	availability of future taxable profit against which deductible temporary differences and carried-forward tax losses can be utilised;
- Note 16 - estimation of useful lives of assets	key assumptions on historical experience and the condition of the asset;
- Note 23 - long service leave provision	key assumptions on attrition rate and pay increases though promotion and inflation;
- Note 22 - make-good provision	key assumptions on future cost estimates in restoring the leased premises in accordance with the lease agreement;

Note 6 Financial risk management

The company has exposure to the following risks arising from financial instruments:

- credit risk;
- liquidity risk; and
- market risk (including cash flow and fair value interest rate).

Note 6 Financial risk management *(continued)*

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 company. The company does not use derivative instruments.

a) Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables from customers.

The company's franchise agreement limits the company's credit exposure to one financial institution, being Bendigo Bank.

b) Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting the obligations associated with its financial liabilities that are cash settled. The company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

The following are the remaining contractual maturities of financial liabilities. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements.

30 June 2020

		Contractual cash flows		
Non-derivative financial liability	Carrying amount	Not later than 12 months	Between 12 months and five years	Greater than five years
Lease liabilities	1,388,250	236,533	974,287	403,401
Trade payables	12,406	12,406	-	-
	1,400,656	248,939	974,287	403,401

30 June 2019

		Contractual cash flows		
Non-derivative financial liability	Carrying amount	Not later than 12 months	Between 12 months and five years	Greater than five years
Trade payables	23,303	23,303	-	-
	23,303	23,303	-	-

Notes to the financial statements continued

Note 6 Financial risk management *(continued)*

c) Market risk

Market risk is the risk that changes in market prices - e.g. foreign exchange rates, interest rates, and equity prices - will affect the company's income or the value of its holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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

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.

Cash flow and fair value interest rate risk

Interest-bearing assets are held with Bendigo Bank and earnings on these subject to movements in market interest.

The company held cash and cash equivalents of $2,203,022 at 30 June 2020 (2019: $1,997,972). The cash and cash equivalents are held in cash and term deposits with Bendigo Bank, which has a BBB rating from Standard & Poor's.

Note 7 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 distributions to shareholders. Capital is represented by total equity as recorded in the statement of financial position.

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

The distribution limit is the greater of:

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

(b) subject to the availability of distributable profits, the relevant rate of return multiplied by the average level of share capital of the company 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 2020 can be seen in the statement of profit or loss and other comprehensive Income.

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

Notes to the financial statements continued

Note 8 Revenue from contracts with customers

The company generates revenue primarily from facilitating community banking services under a franchise agreement with Bendigo Bank. The company is entitled to a share of the margin earned by Bendigo Bank.

Revenue from contracts with customers	2020 $	2019 $
Revenue:		
- Revenue from contracts with customers	2,249,478	2,160,371
	2,249,478	2,160,371

Disaggregation of revenue from contracts with customers

At a point in time:		
- Margin income	2,036,130	1,950,890
- Fee income	106,843	111,382
- Commission income	106,505	98,099
	2,249,478	2,160,371

Note 9 Other revenue

Other revenue	2020 $	2019 $
Revenue:		
- Sub-leasing income	7,551	7,019
- Market development fund income	35,000	39,167
- Government COVID 19 Support	62,500	-
- Monopoly sponsorship income	-	82,000
- Other income	3,385	5,147
	108,436	133,333

Note 10 Finance income

The company holds financial instruments measured at amortised cost. Interest income is recognised at the effective interest rate.

Term deposits which can be readily converted to a known amount of cash and subject to an insignificant risk of change may qualify as a cash equivalent.

Finance income	2020 $	2019 $
At amortised cost:		
- Term deposits	37,186	37,934
	37,186	37,934

Notes to the financial statements continued

Note 11 Gross trading profit

	2020 $	2019 $
Sales		
- Sales - monopoly	-	107,823
Less: Cost of sales		
- Opening stock on hand	-	48,500
- Plus: Purchases	-	38,278
- Less: Closing stock on hand	-	-
Gross Profit	-	21,045

Gross trading profit related to a one-off fundraising project which involved the creation and sale of a Ku-Ring-Gai Edition of Monopoly. All transactions relating to this project were finalised in the 2019 financial year.

Note 12 Expenses

a) Depreciation and amortisation expense

	2020 $	2019 $
Depreciation of non-current assets:		
- Leasehold improvements	40,876	40,819
- Furniture and fittings	6,162	5,866
	47,038	46,685
Depreciation of right-of-use assets		
- Leased land and buildings	194,768	-
	194,768	-
Amortisation of intangible assets:		
- Franchise fee	4,377	4,364
- Franchise renewal process fee	21,882	21,834
	26,259	26,198
Total depreciation and amortisation expense	268,065	72,883

b) Finance costs

	Note	2020 $	2019 $
Finance costs:			
- Lease interest expense	21a)	65,305	-
- Unwinding of make-good provision		1,947	-
		67,252	-

Finance costs are recognised as expenses when incurred using the effective interest rate

Note 12 Expenses *(continued)*

c) Employee benefit expenses

	2020 $	2019 $
Wages and salaries	922,864	895,986
Contributions to defined contribution plans	86,990	82,495
Expenses related to long service leave	41,537	23,115
Other expenses	133,332	109,644
	1,184,723	1,111,240

d) Recognition exemption

The company has elected to exempt leases from recognition where the underlying asset is assessed as low-value or the lease term is 12 months or less.

	2020 $	2019 $
Expenses relating to low-value leases	36,072	-
	36,072	-

Expenses relating to leases exempt from recognition relate to IT equipment and are included in systems costs.

Note 13 Income tax expense

Income tax expense comprises current and deferred tax. Attributable current and deferred tax expense is recognised in the other comprehensive income or directly in equity as appropriate.

a) Amounts recognised in profit or loss

	2020 $	2019 $
Current tax expense		
- Current tax	95,995	106,107
- Movement in deferred tax	(57,945)	(12,220)
- Adjustment to deferred tax on AASB 16 retrospective application	26,991	-
- Reduction in company tax rate	5,704	-
	70,745	93,887

Progressive changes to the company tax rate have been enacted. Consequently, as of 1 July 2020, the company tax rate will be reduced from 27.5% to 26%. This change resulted in a loss of $5,704 related to the remeasurement of deferred tax assets and liabilities of the company.

Notes to the financial statements continued

Note 13 Income tax expense *(continued)*

b) *Prima facie* income tax reconciliation	2020 $	2019 $
Operating profit before taxation	292,728	334,734
Prima facie tax on profit from ordinary activities at 27.5% (2019: 27.5%)	80,500	92,052
Tax effect of:		
- Non-deductible expenses	1,728	1,947
- Temporary differences	30,955	12,108
- Other assessable income	(17,188)	-
- Movement in deferred tax	(57,945)	(12,220)
- Reduction in company tax rate	5,704	-
- Leases initial recognition	26,991	-
	70,745	93,887

Note 14 Cash and cash equivalents

a) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and in banks. Term deposits which can be readily converted to a known amount of cash and subject to an insignificant risk of change may qualify as a cash equivalent.

	2020 $	2019 $
- Cash at bank and on hand	443,207	238,157
- Term deposits	1,759,815	1,759,815
	2,203,022	1,997,972

Note 15 Trade and other receivables

a) Current assets	2020 $	2019 $
Trade receivables	172,959	182,380
Prepayments	10,690	12,798
Other receivables and accruals	7,523	5,785
	191,172	200,963

Notes to the financial statements continued

Note 16 Property, plant and equipment

a) Carrying amounts

	2020 $	2019 $
Land		
Leasehold improvements		
At cost	405,264	405,264
Less: accumulated depreciation	(330,885)	(290,009)
	74,379	115,255
Furniture and fittings		
At cost	94,354	92,827
Less: accumulated depreciation	(61,545)	(55,383)
	32,809	37,444
Total written down amount	107,188	152,699

b) Reconciliation of carrying amounts

	2020 $	2019 $
Leasehold improvements		
Carrying amount at beginning	115,255	152,582
Additions	-	3,492
Depreciation	(40,876)	(40,819)
Carrying amount at end	74,379	115,255
Furniture and fittings		
Carrying amount at beginning	37,444	38,211
Additions	1,527	5,499
Disposals	-	(400)
Depreciation	(6,162)	(5,866)
Carrying amount at end	32,809	37,444
Total written down amount	107,188	152,699

c) Changes in estimates

During the financial year, the company assessed estimates used for property, plant and equipment including useful lives, residual values, and depreciation methods.

There were no changes in estimates for the current reporting period.

Notes to the financial statements continued

Note 17 Right-of-use assets

a) Carrying amounts

	Note	2020 $	2019 $
Leased land and buildings			
At cost		1,503,448	-
Less: accumulated depreciation		(194,768)	-
Total written down amount		1,308,680	-

b) Reconciliation of carrying amounts

	Note	2020 $	2019 $
Leased land and buildings			
Initial recognition on transition	3d)	1,503,448	-
Depreciation		(194,768)	-
Total written down amount		1,308,680	-

Note 18 Intangible assets

a) Carrying amounts

	2020 $	2019 $
Franchise fee		
At cost	118,992	118,992
Less: accumulated amortisation	(104,441)	(100,064)
	14,551	18,928
Franchise renewal process fee		
At cost	244,949	244,949
Less: accumulated amortisation	(172,208)	(150,326)
	72,741	94,623
Total written down amount	87,292	113,551

b) Reconciliation of carrying amounts

	2020	2019
Franchise fee		
Carrying amount at beginning	18,928	1,319
Additions	-	21,973
Amortisation	(4,377)	(4,364)
Carrying amount at end	14,551	18,928

Notes to the financial statements continued

Note 18 Intangible assets *(continued)*

b) Reconciliation of carrying amounts *(continued)*

	2020 $	2019 $
Franchise renewal process fee		
Carrying amount at beginning	94,623	6,594
Additions	-	109,863
Amortisation	(21,882)	(21,834)
Carrying amount at end	72,741	94,623
Total written down amount	87,292	113,551

c) Changes in estimates

During the financial year, the company assessed estimates used for intangible assets including useful lives, residual values, and amortisation methods.

There were no changes in estimates for the current reporting period.

Note 19 Tax assets and liabilities

a) Current tax

	2020 $	2019 $
Income tax payable/(refundable)	(5,051)	4,098

b) Deferred tax

Movement in the company's deferred tax balances for the year ended 30 June 2020:

	30 June 2019	Recognised in profit or loss	Recognised in equity	30 June 2020
Deferred tax assets	$	$	$	$
- expense accruals	798	34	-	832
- employee provisions	48,846	21,986	-	70,832
- make-good provision	-	(143)	11,896	11,753
- lease liability	-	(67,598)	428,543	360,945
Total deferred tax assets	49,644	(45,721)	440,439	444,362
Deferred tax liabilities				
- income accruals	1,591	365	-	1,956
- property, plant and equipment	1,427	1,856	-	3,283
- right-of-use assets	-	(73,191)	413,448	340,257
Total deferred tax liabilities	3,018	(70,970)	413,448	345,496
Net deferred tax assets (liabilities)	46,626	25,249	26,991	98,866

Notes to the financial statements continued

Note 19 Tax assets and liabilities *(continued)*

b) Deferred tax *(continued)*

Movement in the company's deferred tax balances for the year ended 30 June 2019:

	30 June 2018	Recognised in profit or loss	Recognised in equity	30 June 2019
Deferred tax assets	$	$	$	$
- expense accruals	3,764	(2,966)	-	798
- employee provisions	38,292	10,554	-	48,846
Total deferred tax assets	42,056	7,588	-	49,644
Deferred tax liabilities				
- income accruals	2,451	(860)	-	1,591
- property, plant and equipment	5,199	(3,772)	-	1,427
Total deferred tax liabilities	7,650	(4,632)	-	3,018
Net deferred tax assets (liabilities)	34,406	12,220	-	46,626

c) Uncertainty over income tax treatments

As at balance date, there are no tax rulings, or interpretations of tax law, which may result in tax treatments being over-ruled by the taxation authorities.

The company believes that its accrual for income taxes is adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

Note 20 Trade creditors and other payables

Where the company is liable to settle an amount within 12 months of reporting date, the liability is classified as current. All other obligations are classified as non-current.

a) Current liabilities

	2020 $	2019 $
Trade creditors	12,406	23,303
Other creditors and accruals	159,447	140,102
	171,853	163,405

b) Non-current liabilities

Other creditors and accruals	61,237	91,854
	61,237	91,854

Notes to the financial statements continued

Note 21 Lease liabilities

Lease liabilities were measured at amounts equal to the present value of enforceable future payments of the term reasonably expected to be exercised, discounted at the appropriate incremental borrowing rate on the adoption date. The discount rate used on recognition was 4.40%.

Lease portfolio

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the inception of the lease arrangement.

The company's lease portfolio includes:

- Lindfield branch — The lease agreement is a non-cancellable lease with an initial term of five years which commenced on 1 December 2015. The lease has two further five year extension options available. The company has exercised the final option to enter into a five-year lease term.
- Turramurra branch — The lease agreement is a non-cancellable lease with an initial term of five years which commenced on 4 August 2018. The lease has a further five year extension option available. The company is reasonably certain to exercise the final five-year lease term.

a) Lease liability measurement

Lease liabilities on transition	Note	2020 $	2019 $
Initial recognition on AASB 16 transition	3d)	1,558,338	-
Interest expense		65,305	-
Lease payments		(235,393)	-
Closing lease liability		1,388,250	-

b) Current lease liabilities

Property lease liabilities	236,533	-
Unexpired interest	(57,452)	-
	179,081	-

c) Non-current lease liabilities	2020 $	2019 $
Property lease liabilities	1,377,688	-
Unexpired interest	(168,519)	-
	1,209,169	-

d) Maturity analysis

- Not later than 12 months	236,533	-
- Between 12 months and 5 years	974,287	-
- Greater than 5 years	403,401	-
Total undiscounted lease payments	1,614,221	-
Unexpired interest	(225,971)	-
Present value of lease liabilities	1,388,250	-

Note 21 Lease liabilities *(continued)*

e) Impact of adoption

The primary impact on the profit or loss is that lease payments are split between interest and principal payments and the right-of-use asset depreciates. This is in contrast to the comparative reporting period where lease payments under AASB 117 were expensed as incurred.

Comparison under current AASB 16 and former AASB 117

The net impact for the current reporting period is a decrease in profit after tax of $19,304 as follows:

Profit or loss - increase (decrease) in expenses	AASB 117 expense not recognised	Impact on current reporting period	AASB 16 expense now recognised
- Occupancy and associated costs	235,393	(235,393)	-
- Depreciation and amortisation expense	-	194,768	194,768
- Finance costs	-	67,252	67,252
Increase in expenses - before tax	235,393	26,627	262,020
- Income tax expense / (credit) - current	(64,733)	64,733	-
- Income tax expense / (credit) - deferred	-	(72,056)	(72,056)
Increase in expenses - after tax	170,660	19,304	189,964

Note 22 Make good provisions

As at the reporting date, the make-good of the leased premises is not expected to be wholly settled within 12 months. The balance is classified as non-current.

a) Non-current liabilities	2020 $	2019 $
Make-good on leased premises	45,205	-
	45,205	-

b) Make-good provision

In accordance with the branch lease agreements, the company must restore the leased premises to their original condition before the expiry of the lease term.

The company has estimated the provision based on the expected future costs to remove all fittings and the ATM as well as the cost to remedy any damages caused during the removal process.

Provision	Note	2020 $	2019 $
Face-value of make-good costs recognised	3d)	60,200	-
Present value discounting	3d)	(16,942)	-
Present value unwinding		1,947	-
		45,205	-

Note 22 Provisions *(current)*

c) Changes in estimates

During the financial year, the company re-assessed the make good clauses of its lease agreements. The estimated costs were revised having reference to an analysis of restoration costs of bank branches completed by Bendigo Bank's property team. The provision was previously assessed as nil or immaterial with no provision recognised in the accounts.

The branch premises leases are due to expire on the below dates at which time the expected face-value costs to restore the premises will fall due:

- Lindfield branch - 30 November 2025

- Turramurra branch - 3 August 2028

Note 23 Employee provisions

a) Current liabilities	2020 $	2019 $
Provision for annual leave	107,953	77,351
Provision for long service leave	79,667	37,720
	187,620	115,071

b) Non-current liabilities		
Provision for long service leave	42,140	42,550
	42,140	42,550

c) Key judgement and assumptions

Employee attrition rates

The company uses historical employee attrition rates in determining the probability of an employee, at a given date, achieving continuous employment eligible for entitlement in accordance with long service leave legislation.

Note 24 Issued capital

a) Issued capital	2020		2019	
	Number	$	Number	$
Ordinary shares - fully paid	2,251,085	1,326,925	2,251,085	1,326,925
Less: equity raising costs	-	(68,400)	-	(68,400)
	2,251,085	1,258,525	2,251,085	1,258,525

Notes to the financial statements continued

Note 24 Issued capital *(continued)*

b) Rights attached to issued capital

Ordinary shares

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.

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 Bank 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).

Transfer

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

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

Prohibited shareholding interest

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

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

- They control or own 10% or more of the shares in the company (the "10% limit").
- In the opinion of the board they do not have a close connection to the community or communities in which the company predominantly carries on business (the "close connection test").
- Where the person is a shareholder, after the transfer of shares in the company to that person the number of shareholders in the company is (or would be) lower than the base number (the "base number test"). The base number is 343. As at the date of this report, the company had 494 shareholders (2019: 493 shareholders).

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

Note 24 Issued capital *(continued)*

b) Rights attached to issued capital

Prohibited shareholding interest (continued)

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 25 Retained earnings

	Note	2020 $	2019 $
Balance at beginning of reporting period		836,308	736,154
Adjustment for transition to AASB 16	3d)	(71,157)	-
Net profit after tax from ordinary activities		221,983	240,847
Dividends provided for or paid	30a)	(140,693)	(140,693)
Balance at end of reporting period		846,441	836,308

Note 26 Reconciliation of cash flows from operating activities

	2020 $	2019 $
Net profit after tax from ordinary activities	221,983	240,847
Adjustments for:		
- Depreciation	241,806	46,685
- Amortisation	26,259	26,198
- (Profit)/loss on disposal of non-current assets	-	14
Changes in assets and liabilities:		
- (Increase)/decrease in trade and other receivables	9,791	(1,010)
- (Increase)/decrease in other assets	(30,300)	(99,902)
- Increase/(decrease) in trade and other payables	4,244	54,112
- Increase/(decrease) in employee benefits	72,138	37,580
- Increase/(decrease) in provisions	1,948	-
- Increase/(decrease) in tax liabilities	(4,098)	(47,865)
Net cash flows provided by operating activities	543,771	256,659

Notes to the financial statements continued

Note 27 Financial instruments

The following shows the carrying amounts for all financial instruments at amortised cost. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Note	2020 $	2019 $
Financial assets			
Trade and other receivables	15	180,482	188,165
Cash and cash equivalents	14	443,207	238,157
Term deposits	14	1,759,815	1,759,815
		2,383,504	2,186,137
Financial liabilities			
Trade and other payables	20	12,406	23,303
Lease liabilities	21	1,388,250	-
		1,400,656	23,303

Note 28 Auditor's remuneration

Amount received or due and receivable by the auditor of the company for the financial year.

	2020 $	2019 $
Audit and review services		
- Audit and review of financial statements	5,000	4,800
	5,000	4,800
Non audit services		
- Taxation advice and tax compliance services	600	600
- General advisory services	9,720	2,670
- Share registry services	3,245	9,381
	13,565	12,651
Total auditor's remuneration	18,565	17,451

Notes to the financial statements continued

Note 29 Related parties

a) Details of key management personnel

The directors of the company during the financial year were:

Alan James Bardwell
Roman Zeno Tarnawsky
Sara Adams
John Gallu
Linda June McDonald
Christopher Bradley Williamson
Rowenna Margaret Allabush
Himal Suneth Randeniya
Adrian Gordon Fong
Amanda Faith Descoeudres

b) Key management personnel compensation

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.

c) Related party transactions

No director or related entity has entered into a material contract with the company.

Note 30 Dividends provided for or paid

a) Dividends provided for and paid during the period

The following dividends were provided for and paid to shareholders during the reporting period as presented in the statement of changes in equity and statement of cash flows.

	30 June 2020		30 June 2019	
	Cents	$	Cents	$
Fully franked dividend	6.25	140,693	6.25	140,693
Total dividends provided for and paid during the financial year	6.25	140,693	6.25	140,693

The tax rate at which dividends have been franked is 27.5% (2019: 27.5%).

Notes to the financial statements continued

Note 30 Dividends provided for or paid *(continued)*

b) Franking account balance

	2020 $	2019 $
Franking credits available for subsequent reporting periods		
Franking account balance at the beginning of the financial year	417,248	316,642
Franking transactions during the financial year:		
- Franking credits (debits) arising from income taxes paid (refunded)	(3,893)	(2,567)
- Franking credits from instalments paid	109,037	156,539
- Franking debits from the payment of franked distributions	(53,366)	(53,366)
Franking account balance at the end of the financial year	469,026	417,248
Franking transactions that will arise subsequent to the financial year end:		
- Franking credits (debits) that will arise from payment (refund) of income tax	(5,051)	4,098
Franking credits available for future reporting periods	463,975	421,346

The ability to utilise franking credits is dependent upon the company's ability to declare dividends.

Note 31 Earnings per share

a) Basic and diluted earnings per share

The calculation of basic and diluted earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

	2020 $	2019 $
Profit attributable to ordinary shareholders	221,983	240,847
	Number	Number
Weighted-average number of ordinary shares	2,251,085	2,251,085
	Cents	Cents
Basic and diluted earnings per share	9.86	10.70

Notes to the financial statements continued

Note 32 Commitments

a) Lease commitments

Following the adoption of AASB 16 as of 1 July 2019, all lease commitment information and amounts for the financial year ending 30 June 2020 can be found in 'Lease liabilities' (Note 21).

Operating lease commitments - lessee	2020	2019
Non-cancellable operating leases contracted for but not capitalised in the financial statements	$	$
Payable - minimum lease payments:		
- not later than 12 months	-	233,026
- between 12 months and 5 years	-	426,348
- greater than 5 years	-	-
Minimum lease payments payable	-	659,374

b) Other commitments

The company has no other commitments contracted for which would be provided for in future reporting periods.

Note 33 Contingencies

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

Note 34 Subsequent events

There have been no significant events occurring after the reporting period which may affect either the company's operations or the results of those operations or the company's state of affairs.

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 2020 and of its performance for the financial year ended on that date; and

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

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

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

Alan James Bardwell, Chair

Dated this 23rd day of September 2020

Independent Auditor’s Report
to the members of Ku-ring-gai Financial Services Limited

AFS
Partners in success
Chartered Accountants
61 Bull Street, Bendigo 3550
PO Box 454, Bendigo 3552
03 5443 0344
afsbendigo.com.au

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

Report on the audit of the financial report

Our opinion
In our opinion, the accompanying 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 2020 and of its financial performance for the year ended; and
ii. complying with Australian Accounting Standards and the Corporations Regulations 2001.

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
✓ Statement of financial position
✓ 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 company.

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 (including Independence Standards)* (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.

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 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: 23 September 2020

Joshua Griffin
Lead Auditor

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