

Annual Report 2021

Merbein District
Community Financial
Services Limited

Community Bank
Merbein & District

ABN 68 108 297 945

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Chair's report

For year ending 30 June 2021

On behalf of the Board, I would like to present the Chair's report of Merbein District Community Financial Services Limited. This my second report, written while the community is still struggling with the effects of COVID-19 after months of lockdown.

Profit this year is pleasingly up on last year. Although interest rates are still at very low levels which adversely affect our income, lending activity in both the residential and rural sectors is very high and looks set to continue for the foreseeable future. We have an excellent relationship with the Rural Bank Mildura Staff thanks to the effort put in by our Manager Patrick.

The Board made a significant decision earlier in the year to no longer open the branch on Saturday mornings. Although Saturday morning trading was convenient for a few customers, our staff was able to find alternative arrangements for banking options to minimise any inconvenience. Of course we are still open Monday to Friday 9.30 am to 5.00 pm, including lunch hour for the full range of banking services.

Bendigo and Adelaide Bank has had a major brand look update, and this will be reflected in the Community Bank Merbein & District building frontage receiving a branding update and refresh at some time over the next 12 months. This refresh will complement the new staff uniforms which customers will be now seeing.

As of 30 June 2021, Community Bank Merbein & District had given back over \$654,084 to the local community through our Community Development Program. This year our Sponsorship program of \$24,460 included a contribution to the impressive mural "The River Runs Through", an initiative created by Bec Storer and the Merbein Arts Group on the corner of Main Avenue and Game Street. This is creating significant interest and will certainly be a drawcard for Merbein.

On behalf of the Board I thank our Branch Manager Patrick and staff Haley, Tanya, Vikki and Cathy who work at the coalface of our business and execute the day-to-day operations. Once again this year has thrown up unique challenges for our staff, all of which they have met cheerfully and efficiently. Part of what makes our company so great is the staff behind the counter, on the phone and on the computer. The landscape of our industry is seeing rapid change and our systems and tools must now operate across a wide range of digital platforms. Thanks also to the staff at Bendigo and Adelaide Bank who we rely on for support as a Franchisee.

I would like to acknowledge and thank my fellow volunteer Directors Jeanette Worthington (Secretary), Marianne Glover, Ryan Maddox, Sally Keens and Simon Stirrat for their work over the last twelve months, even if we have only seen each other mostly via a computer screen. In August we farewelled Marianne and I would like to take this opportunity to thank her for her contribution to the Board over the years, and her dedication, commitment and passion for the Merbein community which was recognised this year as Merbein Citizen of the Year.



Malcolm Bennett
Chair

Manager's report

For year ending 30 June 2021

It gives me great pleasure to report on the progress of Community Bank Merbein & District, to our valued shareholders, for the year ending 30 June 2021.

Throughout the year of still impacts of COVID-19 we have still managed some significant achievements and its important to note that regardless of any challenges, our purpose, values, strategy and customer commitment will remain at the centre of every decision we make. Our partner, Bendigo Bank is one of Australia's largest banks and has invested in a multi-year strategy to reduce complexity, invest in capability and tell our story to reshape our business for the future and deliver our vision.

The difference with the Community Bank model is that every time people bank with their local Community Bank, the bottom line increases and as such community contributions increase as well. The result of that support is that we have had an increase in lending and slight decline in consumer deposits with growth of 18.60% and – 0.8% respectively, overall our footings increased by 7%. Although we have had good growth in these areas our income has been affected with net interest margin decreasing in comparison to previous year, reflecting active management of pricing and volume for lending and deposits, despite the interest rate environment. Further RBA rate cuts reduced customer deposit pricing which was positively offset by variable loan repricing.

The pleasing aspect in the last 12 months that although some challenges have presented and will continue to be there, the positive nature of the Community Bank model remains. This has been driven by the wonderful staff in Community Bank Merbein & District, the Board and the community alike.

Some highlights attributed to the branch to 30 June 2021 include:

- Lending footings now \$24.2 million
- Deposit footings now \$47.8 million
- Other business footings now \$13.2 million
- Overall footings now \$91.7 million

The Marketing Development Fund is an additional source of income that is provided to our company from Bendigo and Adelaide Bank Limited for grants, sponsorships or marketing.

Some of the sponsorships to 30 June 2021 have included:

\$5,000	Merbein Arts Group – The River Runs Through Project
\$7,000	Major sponsorship of Mallee sports Assembly – Sports Star of the Year Award
\$1,000	Merbein Cemetery Trust
\$1,000	Mildura Little Athletics

We have also continued our involvement with local schools and scholarships, which is a fantastic initiative and engages the whole community, highlights being:

\$1,000	Merbein P-10 College Scholarships and Awards
\$500	School Scholarship for Mildura Senior College

Future

It is exciting times for the township of Merbein and surrounds as we are seeing more and more subdivisions in our area that will attract many new residents and who may bring others back to the area. This is fantastic for the growth and prosperity of our local economy

Manager's report (continued)

We have seen in recent times an increase in our customer numbers who have taken advantage of a local bank with full banking services. We have also seen an increase in embracing different ways to bank such as digital documents that has seen time saving for clients and the ability for the bank to stay active in all areas of banking.

It is also important to acknowledge our relationship with Rural Bank and this is an area that we would like to promote and grow as we sit on the edge of important horticultural and broadacre entities and have the ability and committed staff to assist with our farmers looking to grow their business with a strong local partnership.

Staff

We are very fortunate to have some of the best staff in Bendigo Bank, now I might be biased but the passion, tireless work from my wonderful staff in Tanya Pratt, Haley Hlasny, Vikki Stevens and Cath Dunning has to be mentioned. They continue to go that extra mile to provide world class service and their passion to live and drive our Community Bank values shines through. Thank you ladies, your commitment is very much appreciated. It is also important to acknowledge the tireless work the Board puts in and supported by Bendigo Bank head office, state office and regional support staff.

Closing

As we move into the next financial year there is no doubt that the low interest rate environment presents its own challenges for some and opportunities for others. There is no doubt that the local community and our Community Bank share an amazing trait and that is resilience. Throughout the last 12 months the community and Community Bank Merbein & District have been resilient in their approach to support and unite. This is in part what makes us unique, and this strength provides advantages and market opportunities that lie in our point of difference.

We remain steadfast in our vision to be Australia's bank of choice and Merbein and districts bank of choice.

We look forward to seeing existing and new customers over the next 12 months where we offer modern solutions and opportunities supported by old fashioned personal customer service.

Thank you



Patrick Irwin
Branch Manager

Bendigo and Adelaide Bank report

For year ending 30 June 2021

On behalf of Bendigo and Adelaide Bank, thank you! As a shareholder of your local Community Bank company, you are playing an important role in supporting your community.

It has been a tumultuous year for every community across Australia, and across the world. For our business, recognition that banking is an essential service has meant that we've kept the doors open, albeit with conditions that none of us could ever imagine having to work with.

Face masks, perspex screens, signed documents to cross state borders, checking in customers with QR codes and ensuring hand sanitiser stations are filled aren't what you would expect as a bank employee.

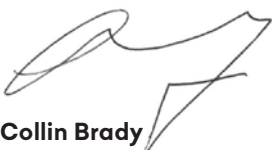
Then there's the fact that while communities have been, and continue to go in and out of lockdown, digital and online banking has become the norm.

So, what does that mean for Bendigo Bank and the Community Bank that you are invested in both as a shareholder, and a customer?

What we're seeing is that your Community Bank is still as important, if not more so, than when you first invested as a shareholder. If the pandemic has taught us anything, it has taught us the importance of place, of our local community, our local economy, our community-based organisations, the importance of social connection and the importance of your local Community Enterprise – your Community Bank in providing, leadership, support, and assistance in these difficult times.

As we continue to adapt to this rapidly changing world one thing that continues to be important to us all is supporting each another and our strong sense of community.

Your continued support as a shareholder is essential to the success of your local community. Thank you for continuing to back your Community Bank company and your community.



Collin Brady
Head of Community Development

Directors' report

The directors present their report together with the financial statements of the company for the financial year ended 30 June 2021.

Directors

The directors of the company who held office during the financial year and to the date of this report are:

Malcolm Raymond Bennett

Chair

Occupation: Horticulturalist

Qualifications, experience and expertise: Malcolm is a partner in family dried fruit property, he is secretary of Merbein branch of Dried fruits Australia, Secretary/Treasurer Mildura Red Cliffs Rifle Club, Former Board member Lower Murray Water and he holds an Associate Diploma of Mechanical Engineering. He is a current director of Merbein Contract Harvesting.

Special responsibilities: Marketing and Development and Finance Committee

Interest in shares: 500 ordinary shares

Marianne Dawn Glover

Non-executive director

Occupation: Hairdresser

Qualifications, experience and expertise: Merbein Development Association Inc. - President. Merbein Uniting Church - Chairman. Merbein Vanilla Slice Inc. - Committee Member.

Special responsibilities:

Interest in shares: 1 ordinary shares

Jeanette Ellen Worthington

Non-executive director

Occupation: Administration

Qualifications, experience and expertise: Administration/Project Officer with Mallee Sports Assembly for 14 years. Partner in family Electrical Contracting Business. Have been associated with the administration of Community and Sporting Clubs across Sunraysia for many years.

Special responsibilities: Chair of Marketing & Development Committee

Interest in shares: 5,001 ordinary shares

Ryan Christian James Maddox

Non-executive director

Occupation: Solicitor

Qualifications, experience and expertise: Solicitor practicing in Commercial Law in Mildura since 2008. Employed in Business and Corporate Banking with NAB from 2001-2008. Former President and Secretary of Northwest Law Association (NWVLA). Former Director of Sunraysia Junior football league. Bachelor of Economics and Bachelor of Laws from University of Tasmania. Graduate Diploma of Legal Practice from College of Law. Part of Northern Mallee Leadership Program Alumni.

Special responsibilities: Nil

Interest in shares: nil share interest held

Sally Mareea Keens

Non-executive director (appointed 24 November 2020)

Occupation: Pharmacist

Qualifications, experience and expertise: Sally holds a Bachelor of Pharmacy and is a member of the Rotary Club of Mildura/Merbein.

Special responsibilities:

Interest in shares: 3,000 ordinary shares

Directors' report (continued)

Directors (continued)

Simon Crawford Stirrat

Non-executive director (appointed 24 November 2020)

Occupation: Public servant - retired

Qualifications, experience and expertise: Simon has a PHD and 30 years experience in state government and university employment.

Special responsibilities:

Interest in shares: nil share interest held

Rebecca Claire Wells

Non-executive director (resigned 30 September 2020)

Occupation: Chief Executive

Qualifications, experience and expertise: Rebecca holds a Bachelor of Arts, Master of Media Production (Hons), a MBA and is a graduate of the Australian Institute of Company Directors, Company Directors course. She is also alumni of the Northern Mallee Leaders Program. Rebecca was previously a community member of the Mallee Regional Partnership and Bendigo and Adelaide's Community Bank National Council. She has worked in the horticulture, higher education, communications, governance, community leadership and local government sectors.

Special responsibilities: Rebecca is a member of the company's Marketing and Development Committee.

Interest in shares: nil share interest held

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

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

Company Secretary

The company secretary is Jeanette Worthington. Jeanette was appointed to the position of secretary on 10 March 2004.

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

The profit of the company for the financial year after provision for income tax was:

Year ended	Year ended
30 June 2021	30 June 2020
\$	\$
13,331	7,948

Directors' report (continued)

Directors' interests

	Fully paid ordinary shares		
	Balance at start of the year	Changes during the year	Balance at end of the year
Malcolm Raymond Bennett	500	-	500
Marianne Dawn Glover	1	-	1
Jeanette Ellen Worthington	5,001	-	5,001
Ryan Christian James Maddox	-	-	-
Sally Mareea Keens	-	3,000	3,000
Simon Crawford Stirrat	-	-	-
Rebecca Claire Wells	-	-	-

Dividends

No dividends were declared or paid for the previous financial year and the directors recommend that no dividend be paid in the current financial year.

Significant changes in the state of affairs

Since January 2020, COVID-19 has developed and spread globally. In response, the Commonwealth and State Government introduced a range of social isolation measures to limit the spread of the virus. Such measures have been revised, as appropriate, based on case numbers and the level of community transmission. Whilst there has been no significant changes on the company's financial performance so far, 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 its policy of facilitating banking services to the community.

Environmental regulation

The company is not subject to any significant environmental regulation.

Directors' benefits

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

Directors' report (continued)

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 Meetings		Committee Meetings	
			Marketing & development	
<i>E - eligible to attend</i>	<i>E</i>	<i>A</i>	<i>E</i>	<i>A</i>
<i>A - number attended</i>				
Malcolm Raymond Bennett	10	10	2	2
Marianne Dawn Glover	10	7	2	2
Jeanette Ellen Worthington	10	10	2	2
Ryan Christian James Maddox	10	8	-	-
Sally Mareea Keens	6	3	-	-
Simon Crawford Stirrat	6	5	-	-
Rebecca Claire Wells	3	2	1	1

Proceedings on behalf of the company

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

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

Non audit services

The company may decide to employ the auditor on assignments additional to their statutory duties where the auditor's expertise and experience with the company are important. Details of the amounts paid or payable to the auditor (Andrew Frewin Stewart) for audit and non audit services provided during the year are set out in note 27 to the accounts.

The board of directors has considered the non-audit services provided during the year by the auditor and, 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 board 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.

Directors' report (continued)

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 10.

Signed in accordance with a resolution of the directors at Merbein, Victoria.



Malcolm Raymond Bennett, Chair

Dated this 22nd day of September 2021

Auditor's independence declaration



61 Bull Street
Bendigo VIC 3550
afs@afsbendigo.com.au
03 5443 0344

Independent auditor's independence declaration under section 307C of the *Corporations Act 2001* to the Directors of Merbein District Community Financial Services Limited

As lead auditor for the audit of Merbein District Community Financial Services Limited for the year ended 30 June 2021, 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: 22nd September 2021

Adrian Downing
Lead Auditor



Financial statements

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2021

	Notes	2021 \$	2020 \$
Revenue from contracts with customers	8	466,261	456,927
Other revenue	9	58,366	70,848
Employee benefit expenses	10c)	(326,479)	(324,752)
Charitable donations, sponsorship, advertising and promotion		(31,979)	(24,429)
Occupancy and associated costs		(25,036)	(37,693)
Systems costs		(19,498)	(17,747)
Depreciation and amortisation expense	10a)	(35,724)	(35,617)
Finance costs	10b)	(4,333)	(6,007)
General administration expenses		(64,728)	(74,775)
Profit before income tax		16,850	6,755
Income tax (expense)/credit	11a)	(3,519)	1,193
Profit after income tax		13,331	7,948
Total comprehensive income for the year attributable to the ordinary shareholders of the company:		13,331	7,948
Earnings per share		¢	¢
- Basic and diluted earnings per share:	30a)	2.46	1.47

The accompanying notes form part of these financial statements

Financial statements (continued)

Statement of Financial Position

as at 30 June 2021

	Notes	2021 \$	2020 \$
ASSETS			
Current assets			
Cash and cash equivalents	12	119,442	115,933
Trade and other receivables	13	52,694	48,852
Total current assets		172,136	164,785
Non-current assets			
Property, plant and equipment	14a)	56,220	60,435
Right-of-use assets	15a)	32,536	46,928
Intangible assets	16a)	38,434	52,176
Deferred tax asset	17a)	107,435	110,954
Total non-current assets		234,625	270,493
Total assets		406,761	435,278
LIABILITIES			
Current liabilities			
Trade and other payables	18a)	45,554	34,068
Loans and borrowings	19a)	22,566	49,472
Lease liabilities	20a)	18,867	18,783
Employee benefits	22a)	49,808	47,857
Total current liabilities		136,795	150,180
Non-current liabilities			
Trade and other payables	18b)	30,779	46,163
Lease liabilities	20b)	32,179	51,046
Employee benefits	22b)	13,701	8,430
Provisions	21a)	9,869	9,352
Total non-current liabilities		86,528	114,991
Total liabilities		223,323	265,171
Net assets		183,438	170,107
EQUITY			
Issued capital	23a)	490,005	490,005
Accumulated losses	24	(306,567)	(319,898)
Total equity		183,438	170,107

The accompanying notes form part of these financial statements

Statement of Changes in Equity for the year ended 30 June 2021

	Notes	Issued capital \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2019		490,005	(314,662)	175,343
Total comprehensive income for the year		-	7,948	7,948
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	29	-	(13,184)	(13,184)
Balance at 30 June 2020		490,005	(319,898)	170,107
Balance at 1 July 2020		490,005	(319,898)	170,107
Total comprehensive income for the year		-	13,331	13,331
Balance at 30 June 2021		490,005	(306,567)	183,438

The accompanying notes form part of these financial statements

Financial statements (continued)

Statement of Cash Flows for the year ended 30 June 2021

	Notes	2021 \$	2020 \$
Cash flows from operating activities			
Receipts from customers		569,477	579,650
Payments to suppliers and employees		(491,812)	(534,789)
Interest paid		(507)	(1,221)
Lease payments (interest component)	10b)	(3,309)	(4,297)
Lease payments not included in the measurement of lease liabilities	10d)	(7,289)	(5,678)
Net cash provided by operating activities	25	66,560	33,665
Cash flows from investing activities			
Payments for property, plant and equipment		(3,374)	-
Payments for intangible assets		(13,990)	(13,990)
Net cash used in investing activities		(17,364)	(13,990)
Cash flows from financing activities			
Lease payments (principal component)		(18,782)	(17,796)
Dividends paid	29a)	-	(13,184)
Net cash used in financing activities		(18,782)	(30,980)
Net cash increase/(decrease) in cash held		30,414	(11,305)
Cash and cash equivalents at the beginning of the financial year		66,461	77,766
Cash and cash equivalents at the end of the financial year	12b)	96,875	66,461

The accompanying notes form part of these financial statements

Notes to the financial statements

For the year ended 30 June 2021

Note 1 Reporting entity

This is the financial report for Merbein District Community 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:

Registered Office	Principal Place of Business
66 Commercial Street Merbein Vic 3505	66 Commercial Street Merbein Vic 3505

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 28.

Note 2 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 comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The financial statements have been prepared on an accrual and historical cost basis. 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 2021 were authorised for issue in accordance with a resolution of the directors on 22 September 2021.

Note 3 Changes in accounting policies, standards and interpretations

There are a number of amendments to accounting standards issued by the AASB that became mandatorily effective for accounting periods beginning on or after 1 July 2020, and are therefore relevant for the current financial year. The amendments did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Note 4 Summary of significant accounting policies

The company has consistently applied the following accounting policies to all periods presented in these financial statements.

a) Revenue from contracts with customers

The company has entered into a franchise agreement with Bendigo Bank. The company delivers 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:

Notes to the financial statements (continued)

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

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

<u>Revenue</u>	<u>Includes</u>	<u>Performance obligation</u>	<u>Timing of recognition</u>
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.

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.

Notes to the financial statements (continued)

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

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

Ability to change financial return

Under the franchise agreement, Bendigo Bank may change the form and amount of financial return 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

Discretionary financial contributions (also "Market Development Fund" or "MDF" income)

MDF income is recognised when the right to receive the payment is established. MDF income is discretionary and provided and receivable at month-end and paid within 14 days after month-end.

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).

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).

Discretionary financial contributions

In addition to margin, commission and fee income, and separate from the franchise agreement, Bendigo Bank has also made MDF payments to the company.

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

The payments from Bendigo Bank are discretionary and may change the amount or stop making them at any time. The company retains control over the funds, the funds are not refundable to Bendigo Bank.

Cash flow boost

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 are 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.

Notes to the financial statements (continued)

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

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.

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.

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
- providing payroll services.

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 the employee has provided the service but payment has not yet occurred at the reporting date. They are measured at amounts expected to be paid, plus related on-costs. 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. The company's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as part of current trade and other payables in the statement of financial position. The company's obligations for employees' annual leave and long service leave entitlements are recognised in employee benefits in the statement of financial position.

Notes to the financial statements (continued)

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

d) Employee benefits (*continued*)

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.

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.

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

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.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the 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.

Notes to the financial statements (continued)

Note 4 Summary of significant accounting policies (continued)

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.

g) Property, plant and equipment

Items of property, plant and equipment are measured at cost or fair value as applicable, 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 is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the company.

Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using straight-line and diminishing value method over 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:

<u>Asset class</u>	<u>Method</u>	<u>Useful life</u>
Leasehold improvements	Straight-line	3 to 40 years
Plant and equipment	Straight-line and diminishing value	2.5 to 9 years
Motor vehicles	Straight-line	5 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 conveys the right to operate the Community Bank franchise.

Intangible assets are measured on initial recognition at cost. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

The franchise fees paid by the company 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:

<u>Asset class</u>	<u>Method</u>	<u>Useful life</u>
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 appropriate.

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, borrowings and lease liabilities.

Trade receivables are initially recognised at the transaction price when they originated. All other financial assets and financial liabilities are initially measured at fair value plus, transaction costs (where applicable) when the company becomes a party to the contractual provisions of the instrument. These assets and liabilities are subsequently measured at amortised cost using the effective interest method.

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the rights are transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and rewards associated with the asset. Financial liabilities are derecognised when its contractual obligations are discharged, cancelled, or expire. Any gain or loss on derecognition is recognised in profit or loss.

Notes to the financial statements (continued)

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

i) Financial instruments (*continued*)

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the company currently has a legally enforceable right to set off the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

j) Impairment

Non-derivative financial assets

Expected credit losses (ECL) 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. At each reporting date, the entity recognises the movement in the ECL (if any) as an impairment gain or loss in the statement of profit or loss and other comprehensive income.

The company's trade receivables are limited to the monthly profit share distribution from Bendigo Bank, which is received 10 business days post month end. Due to the reliance on Bendigo Bank the company has reviewed credit ratings provided by Standard & Poors, Moody's and Fitch Ratings to determine the level of credit exposure to the company. The company also performed a historical assessment of receivables from Bendigo Bank and found no instances of default. As a result no ECL has been made in relation to trade receivables as at 30 June 2021.

Non-financial assets

At each reporting date, the company reviews the carrying amounts of its tangible and intangible assets that have an indefinite useful life to determine whether there is any indication those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

k) Issued capital

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

l) 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.

m) Leases

At inception of a contract, the company assesses whether a contract contains or is 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 and obtain substantially all the economic benefits from the use of that asset.

As a lessee

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using 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 fixed or variable lease payments that depend on an index or rate and lease payments in a renewal option if the company is reasonably certain to exercise that option. For leases of property the company has elected to separate lease and non-lease components when calculating the lease liability.

Notes to the financial statements (continued)

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

m) Leases (*continued*)

As a lessee (continued)

The lease liability 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 option or if there is a revised in-substance fixed lease payment.

The company assesses at the lease commencement date whether it is reasonably certain to exercise extension options. The company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

Where the company is a lessee for the premises to conduct its business, extension options are included in the lease term except when the company is reasonably certain not to exercise the extension option. This is due to the significant disruption of relocating premises and the loss on disposal of leasehold improvements fitted out in the demised leased premises.

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.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, 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.

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.

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 20 - leases:	
a) control	a) whether a contract is or contains a lease at inception by assessing whether the company has the right to direct the use of the identified asset and obtain substantially all the economic benefits from the use of that asset;
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, economic environment and other relevant factors.

b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at 30 June 2021 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 16 - recognition of deferred tax assets	availability of future taxable profit against which deductible temporary differences and carried-forward tax losses can be utilised;
- Note 14 - estimation of useful lives of assets	key assumptions on historical experience and the condition of the asset;
- Note 21 - make-good provision	key assumptions on future cost estimates in restoring the leased premises in accordance with the lease agreement;
- Note 22 - long service leave provision	key assumptions on attrition rate and pay increases through promotion and inflation.

Note 6 Financial risk management

The company has exposure to credit, liquidity and market risk arising from financial instruments. 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.

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

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 and investments in debt securities.

The company's franchise agreement limits the company's credit exposure to one financial institution, being Bendigo Bank. The company monitors credit worthiness through review of credit ratings of the bank.

Notes to the financial statements (continued)

Note 6 Financial risk management (continued)

b) Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting the obligations associated with its financial liabilities. 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 company maintains the following lines of credit with Bendigo Bank:

- \$80,000 overdraft facility with available facility of \$57,434 as at 30 June 2021. Interest is payable at a rate of 2.035% (2020: 2.40%)

The bank overdraft is repayable on demand and used for cash management purposes. It is reviewed annual by the lender, Bendigo Bank. As at balance date, the lender does not intend to reduce or end the overdraft facility within the next 12 months.

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities. The contractual cash flows amounts are gross and undiscounted.

30 June 2021

<u>Non-derivative financial liability</u>	<u>Carrying amount</u>	<u>Not later than 12 months</u>	<u>Contractual cash flows</u>	
			<u>Between 12 months and five years</u>	<u>Greater than five years</u>
Bank overdraft	22,566	22,566	-	-
Lease liabilities	51,046	21,137	34,091	-
Trade and other payables	76,333	45,554	30,779	-
	<u>149,945</u>	<u>89,257</u>	<u>64,870</u>	<u>-</u>

30 June 2020

<u>Non-derivative financial liability</u>	<u>Carrying amount</u>	<u>Not later than 12 months</u>	<u>Contractual cash flows</u>	
			<u>Between 12 months and five years</u>	<u>Greater than five years</u>
Bank overdraft	49,472	49,472	-	-
Lease liabilities	69,829	22,092	55,228	-
Trade and other payables	80,231	34,068	46,163	-
	<u>199,532</u>	<u>105,632</u>	<u>101,391</u>	<u>-</u>

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 subject to movements in market interest. Interest-rate risk could also arise from long-term borrowings. Borrowings issued at variable rates expose the company to cash flow interest-rate risk.

The company held cash and cash equivalents of \$119,442 at 30 June 2021 (2020: \$115,933). The cash and cash equivalents are held with Bendigo Bank, which are rated BBB on Standard & Poor's credit ratings.

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 2021 can be seen in the statement of profit or loss and other comprehensive Income.

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

Note 8 Revenue from contracts with customers

	2021	2020
	\$	\$
- Margin income	368,919	379,866
- Fee income	45,979	40,026
- Commission income	51,363	37,035
	<u>466,261</u>	<u>456,927</u>

Notes to the financial statements (continued)

Note 9 Other revenue

	2021 \$	2020 \$
- Market development fund income	35,000	35,208
- Cash flow boost	20,667	34,445
- Other income	2,699	1,195
	<u>58,366</u>	<u>70,848</u>

Note 10 Expenses

a) Depreciation and amortisation expense

	2021 \$	2020 \$
<i>Depreciation of non-current assets:</i>		
- Leasehold improvements	6,226	6,274
- Plant and equipment	1,363	1,208
	<u>7,589</u>	<u>7,482</u>
<i>Depreciation of right-of-use assets</i>		
- Leased land and buildings	9,066	9,066
- Leased motor vehicles	5,326	5,326
	<u>14,392</u>	<u>14,392</u>
<i>Amortisation of intangible assets:</i>		
- Franchise fee	2,291	2,291
- Franchise renewal process fee	11,452	11,452
	<u>13,743</u>	<u>13,743</u>
Total depreciation and amortisation expense	<u>35,724</u>	<u>35,617</u>

b) Finance costs

- Bank overdraft interest paid or accrued	919	1,221
- Lease interest expense	2,897	4,297
- Unwinding of make-good provision	517	489
	<u>4,333</u>	<u>6,007</u>

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

c) Employee benefit expenses

Wages and salaries	276,734	286,719
Non-cash benefits	3,011	-
Contributions to defined contribution plans	29,107	26,705
Expenses related to long service leave	7,226	2,228
Other expenses	10,401	9,100
	<u>326,479</u>	<u>324,752</u>

Notes to the financial statements (continued)

Note 10 Expenses (*continued*)

d) Recognition exemption

The company pays for the right to use information technology equipment. The underlying assets have been assessed as low value and exempted from recognition under AASB 16 accounting. Expenses relating to low-value exempt leases are included in system costs expenses.

	2021 \$	2020 \$
Expenses relating to low-value leases	7,289	5,678

Note 11 Income tax expense

a) Amounts recognised in profit or loss

	2021 \$	2020 \$
<i>Current tax expense/(credit)</i>		
- Recoupment of prior year tax losses	3,730	-
- Future income tax benefit attributable to losses	-	(1,289)
- Movement in deferred tax	(4,508)	(16,038)
- Adjustment to deferred tax on AASB 16 retrospective application	-	9,733
- Adjustment to deferred tax to reflect reduction in tax rate in future periods	4,297	6,401
	3,519	(1,193)

Progressive changes to the company tax rate have been enacted. Consequently, as of 1 July 2021, the company tax rate will be reduced from 26% to 25%. This change resulted in a loss of \$4,297 related to the remeasurement of deferred tax assets and liabilities of the company.

b) *Prima facie* income tax reconciliation

	2021 \$	2020 \$
Operating profit before taxation	16,850	6,755
Prima facie tax on loss from ordinary activities at 26% (2020: 27.5%)	4,381	1,858
Tax effect of:		
- Non-deductible expenses	214	22
- Temporary differences	4,508	6,303
- Other assessable income	(5,373)	(9,472)
- Movement in deferred tax	(4,508)	(16,038)
- Leases initial recognition	-	9,733
- Adjustment to deferred tax to reflect reduction in tax rate in future periods	4,297	6,401
	3,519	(1,193)

Notes to the financial statements (continued)

Note 12 Cash and cash equivalents

a) Cash and cash equivalents	2021 \$	2020 \$
Cash at bank and on hand	119,442	115,933

b) Reconciliation to statement of cash flows

For the purposes of the statement of cash flows, cash includes cash on hand, cash held with financial and banking institutions, and investments in short-term money financial instruments, net of outstanding bank overdrafts. Bank overdrafts are presented with loans and borrowings.

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

	Note	2021 \$	2020 \$
- Cash at bank and on hand		119,441	115,933
- Bank overdraft	19a)	(22,566)	(49,472)
		96,875	66,461

Note 13 Trade and other receivables

a) Current assets	2021 \$	2020 \$
Trade receivables	46,088	40,932
Prepayments	6,606	6,606
Other receivables and accruals	-	1,314
	52,694	48,852

Note 14 Property, plant and equipment

a) Carrying amounts	2021 \$	2020 \$
<i>Leasehold improvements</i>		
At cost	106,854	106,854
Less: accumulated depreciation	(59,084)	(52,858)
	47,770	53,996
<i>Plant and equipment</i>		
At cost	54,128	50,754
Less: accumulated depreciation	(45,678)	(44,315)
	8,450	6,439
Total written down amount	56,220	60,435

Notes to the financial statements (continued)

Note 14 Property, plant and equipment (*continued*)

b) Reconciliation of carrying amounts

	Note	2021 \$	2020 \$
<i>Leasehold improvements</i>			
Carrying amount at beginning		53,996	60,270
Depreciation		(6,226)	(6,274)
Carrying amount at end		47,770	53,996
<i>Plant and equipment</i>			
Carrying amount at beginning		6,439	7,647
Additions		3,374	-
Depreciation		(1,363)	(1,208)
Carrying amount at end		8,450	6,439
<i>Motor vehicles</i>			
Carrying amount at beginning		-	15,236
Lease asset transferred out - at cost	15b)	-	(26,632)
Lease asset transferred out - accumulated depreciation	15b)	-	11,396
Carrying amount at end		-	-
Total written down amount		56,220	60,435

Following the adoption of AASB 16 in the previous financial year, the company now groups its leased assets previously recognised in 'property, plant and equipment' in 'right-of-use assets'.

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.

Note 15 Right-of-use assets

a) Carrying amounts

	2021 \$	2020 \$
<i>Leased land and buildings</i>		
At cost	183,579	183,579
Less: accumulated depreciation	(155,627)	(146,561)
	27,952	37,018
<i>Leased motor vehicles</i>		
At cost	26,632	26,632
Less: accumulated depreciation	(22,048)	(16,722)
	4,584	9,910
Total written down amount	32,536	46,928

Notes to the financial statements (continued)

Note 15 Right-of-use assets (*continued*)

b) Reconciliation of carrying amounts	Note	2021 \$	2020 \$
<i>Leased land and buildings</i>			
Carrying amount at beginning		37,018	-
Initial recognition on transition		-	183,579
Accumulated depreciation on adoption		-	(137,495)
Depreciation		(9,066)	(9,066)
		<u>27,952</u>	<u>37,018</u>
<i>Leased motor vehicles</i>			
Carrying amount at beginning		9,910	-
Lease asset transferred in - at cost	14b)	-	26,632
Lease asset transferred in - accumulated depreciation	14b)	-	(11,396)
Depreciation		(5,326)	(5,326)
		<u>4,584</u>	<u>9,910</u>
Total written down amount		<u>32,536</u>	<u>46,928</u>

Note 16 Intangible assets

a) Carrying amounts	2021 \$	2020 \$
<i>Franchise fee</i>		
At cost	93,651	93,651
Less: accumulated amortisation	(87,245)	(84,955)
	<u>6,406</u>	<u>8,696</u>
<i>Franchise renewal process fee</i>		
At cost	168,249	168,249
Less: accumulated amortisation	(136,221)	(124,769)
	<u>32,028</u>	<u>43,480</u>
Total written down amount	<u>38,434</u>	<u>52,176</u>
b) Reconciliation of carrying amounts		
<i>Franchise fee</i>		
Carrying amount at beginning	8,696	10,987
Amortisation	(2,290)	(2,291)
	<u>6,406</u>	<u>8,696</u>
<i>Franchise renewal process fee</i>		
Carrying amount at beginning	43,480	54,932
Amortisation	(11,452)	(11,452)
	<u>32,028</u>	<u>43,480</u>
Total written down amount	<u>38,434</u>	<u>52,176</u>

Notes to the financial statements (continued)

Note 16 Intangible assets (continued)

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 17 Tax assets and liabilities

a) Deferred tax	2021 \$	2020 \$
<i>Deferred tax assets</i>		
- expense accruals	1,419	468
- employee provisions	15,877	14,243
- make-good provision	2,467	2,431
- lease liability	11,598	15,563
- carried-forward tax losses	92,441	99,869
Total deferred tax assets	123,802	132,574
<i>Deferred tax liabilities</i>		
- property, plant and equipment	9,379	11,995
- right-of-use assets	6,988	9,625
Total deferred tax liabilities	16,367	21,620
Net deferred tax assets (liabilities)	107,435	110,954
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	(3,519)	1,191
Movement in deferred tax charged to Statement of Changes in Equity	-	9,734

Note 18 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	2021 \$	2020 \$
Trade creditors	19,028	19,215
Other creditors and accruals	26,526	14,853
	45,554	34,068
b) Non-current liabilities		
Other creditors and accruals	30,779	46,163

Notes to the financial statements (continued)

Note 19 Loans and borrowings

a) Current liabilities

	2021 \$	2020 \$
Bank overdraft	22,566	49,472

The company has an approved overdraft limit of \$80,000 which was drawn down to \$22,566. The company has \$57,434 overdraft remaining before exceeding the approved limited or required to re-negotiate the terms.

Interest is recognised using the effective interest method, currently 2.035% (2020: 2.40%).

The bank overdraft is repayable on demand and used for cash management purposes. It is reviewed annually by the lender, Bendigo Bank.

b) Terms and repayment schedule

	Nominal interest rate	Year of maturity	30 June 2021		30 June 2020	
			Face value	Carrying value	Face value	Carrying value
Bank overdraft	2.035%	Floating	22,566	22,566	49,472	49,472

Note 20 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 5.39%.

The company has applied judgement in estimating the remaining lease term including the effects of any extension options reasonably expected to be exercised, applying hindsight where appropriate.

The company's lease portfolio includes:

- **Branch Premises** The lease agreement commenced in May 2004. A 5 years lease extension was exercised in July 2019. The company has no renewal options available in the current lease agreement. As such, the lease term end date used in the calculation of the lease liability is July 2024.
- **Motor vehicle** The lease agreement is a non-cancellable term of five years which commenced in May 2017. Upon final payment the registered security over the motor vehicles is removed.

a) Current lease liabilities

	2021 \$	2020 \$
Property lease liabilities	16,364	16,364
Unexpired interest	(2,153)	(2,897)
	14,211	13,467
Motor vehicle lease liabilities	4,773	5,728
Unexpired interest	(117)	(412)
	4,656	5,316
	18,867	18,783

Notes to the financial statements (continued)

Note 20 Lease liabilities (continued)

b) Non-current lease liabilities	2021	2020
	\$	\$
Property lease liabilities	34,091	49,287
Unexpired interest	(1,912)	(2,897)
	<u>32,179</u>	<u>46,390</u>
Motor vehicle lease liabilities	-	4,773
Unexpired interest	-	(117)
	<u>-</u>	<u>4,656</u>
	<u>32,179</u>	<u>51,046</u>
c) Reconciliation of lease liabilities		
Balance at the beginning	69,829	15,007
Initial recognition on AASB 16 transition	-	72,618
Lease interest expense	3,309	4,297
Lease payments - total cash outflow	(22,092)	(22,093)
	<u>51,046</u>	<u>69,829</u>
d) Maturity analysis		
- Not later than 12 months	21,137	22,092
- Between 12 months and 5 years	34,091	55,228
Total undiscounted lease payments	<u>55,228</u>	<u>77,320</u>
Unexpired interest	(4,182)	(7,491)
Present value of lease liabilities	<u>51,046</u>	<u>69,829</u>

Note 21 Provisions

a) Non-current liabilities	2021	2020
	\$	\$
Make-good on leased premises	<u>9,869</u>	<u>9,352</u>

In accordance with the branch lease agreement, the company must restore the leased premises to the original condition before the expiry of the lease term. The company has estimated the provision as at \$11,650 based on experience and consideration of the expected future costs to remove all fittings and the ATM as well as cost to remedy any damages caused during the removal process. The lease is due to expire on 31 July 2024 at which time it is expected the face-value costs to restore the premises will fall due.

Note 22 Employee benefits

a) Current liabilities	2021	2020
	\$	\$
Provision for annual leave	36,264	36,268
Provision for long service leave	13,544	11,589
	<u>49,808</u>	<u>47,857</u>
b) Non-current liabilities		
Provision for long service leave	<u>13,701</u>	<u>8,430</u>

Notes to the financial statements (continued)

Note 22 Employee benefits (continued)

c) Key judgement and assumptions

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 23 Issued capital

a) Issued capital

	2021		2020	
	Number	\$	Number	\$
Ordinary shares - fully paid	542,411	542,411	542,411	542,411
Less: equity raising costs	-	(52,406)	-	(52,406)
	<u>542,411</u>	<u>490,005</u>	<u>542,411</u>	<u>490,005</u>

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*.

Notes to the financial statements (continued)

Note 23 Issued capital (continued)

b) Rights attached to issued capital (continued)

Prohibited shareholding interest

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

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

- They control or own 10% or more of the shares in the company (the "10% limit").
- In the opinion of the board they do not have a close connection to the community or communities in which the company predominantly carries on business (the "close connection test").

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

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

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

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

Note 24 Accumulated losses

	Note	2021 \$	2020 \$
Balance at beginning of reporting period		(319,898)	(288,999)
Adjustment for transition to AASB 16		-	(25,663)
Net profit after tax from ordinary activities		13,331	7,948
Dividends provided for or paid	29a)	-	(13,184)
Balance at end of reporting period		<u>(306,567)</u>	<u>(319,898)</u>

Notes to the financial statements (continued)

Note 25 Reconciliation of cash flows from operating activities

	2021 \$	2020 \$
Net profit after tax from ordinary activities	13,331	7,948
Adjustments for:		
- Depreciation	21,981	21,874
- Amortisation	13,743	13,743
Changes in assets and liabilities:		
- (Increase)/decrease in trade and other receivables	(3,842)	5,836
- (Increase)/decrease in other assets	3,520	(1,192)
- Increase/(decrease) in trade and other payables	10,088	(28,909)
- Increase/(decrease) in employee benefits	7,222	13,876
- Increase/(decrease) in provisions	517	489
Net cash flows provided by operating activities	<u>66,560</u>	<u>33,665</u>

Note 26 Financial instruments

The following shows the carrying amounts for all financial instruments at amortised costs. 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	2021 \$	2020 \$
Financial assets			
Cash and cash equivalents	12	119,442	115,933
Trade and other receivables	13	46,088	42,246
		<u>165,530</u>	<u>158,179</u>
Financial liabilities			
Trade and other payables	18	76,333	80,231
Bank overdrafts	19	22,566	49,472
Lease liabilities	20	51,046	69,829
		<u>149,945</u>	<u>199,532</u>

Note 27 Auditor's remuneration

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

	2021 \$	2020 \$
<i>Audit and review services</i>		
- Audit and review of financial statements	5,000	4,800
<i>Non audit services</i>		
- Taxation advice and tax compliance services	600	600
- General advisory services	3,080	3,160
- Share registry services	1,900	4,964
Total auditor's remuneration	<u>10,580</u>	<u>13,524</u>

Notes to the financial statements (continued)

Note 28 Related parties

a) Details of key management personnel

The directors of the company during the financial year were:

Malcolm Raymond Bennett
 Marianne Dawn Glover
 Jeanette Ellen Worthington
 Ryan Christian James Maddox
 Sally Mareea Keens
 Simon Crawford Stirrat
 Rebecca Claire Wells

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 29 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 2021		30 June 2020	
	Cents	\$	Cents	\$
Unfranked dividend	-	-	2.50	13,184

Note 30 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.

	2021	2020
	\$	\$
Profit attributable to ordinary shareholders	13,331	7,948
	Number	Number
Weighted-average number of ordinary shares	542,411	542,411
	Cents	Cents
Basic and diluted earnings per share	2.46	1.47

Notes to the financial statements (continued)

Note 31 Commitments

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

Note 32 Contingencies

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

Note 33 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 Merbein District Community Financial Services Limited, we state that:

In the opinion of the directors:

- (a) the financial statements and notes of the company are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2021 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.



Malcolm Raymond Bennett, Chair

Dated this 22nd day of September 2021

Independent audit report



61 Bull Street
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03 5443 0344

Independent auditor's report to the Directors of Merbein District Community Financial Services Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Merbein District Community Financial Services Limited's (the company), which comprises:

- Statement of financial position as at 30 June 2021
- Statement of profit or loss and other comprehensive income
- Statement of changes in equity
- Statement of cash flows
- Notes to the financial statements, including a summary of significant accounting policies
- The directors' declaration of the company.

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

- i. giving a true and fair view of the company's financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and
- ii. complying with Australian Accounting Standards and the Corporations Regulations 2001.

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.

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.





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Other Information

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

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

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.

Responsibilities of the Directors 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 responsibilities 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.

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As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Andrew Frewin Stewart
61 Bull Street, Bendigo, Vic, 3550
Dated: 22nd September 2021

Adrian Downing
Lead Auditor

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