



Annual Report 2020

Murrumbeena Community Financial Services Limited

ABN 47 104 667 361

Murrumbeena Community Bank

Contents

Chairman's report	3
Senior Manager's report	4
Bendigo and Adelaide Bank report	5
Director's report	6
Autitor's independence declaration	10
Financial statements	11
Notes to the financial statements	15
Directors' declaration	48
Independent audit report	49

Chairman's report

For year ending 30 June 2020

“Better Banking, Better Service, Better Community”

This is the mantra that we live by at Murrumbreena and whilst nature has thrown everything at us with long term drought, devastating bushfires and COVID19 we have come through in a strong position dedicated to building a stronger and more sustainable community. Our staff have been stoic and despite the risk of personal health challenges have maintained full trading hours and assisting our customers with their needs. For this we thank them for their passion, dedication and commitment to the community.

To our customers who have supported us throughout the years, thank you, we wish to advise that we have now contributed in excess of \$3million back into the community thanks to your banking. It has always been about feeding into the prosperity of the community and not off it.

RBA rate cuts to a record low have affected our profitability to a great extent but we are a strong lending branch and maintaining budget through adversity. Margins have tightened in the banking sector as interest rates have reached record lows, effecting our community contributions. Despite the setback we take great pride in announcing a dividend of 11cents per share fully franked payable in November.

At the beginning of the lockdown our board reviewed our position around sponsorships given that it appeared that there would be no season for sports and no promotion in return. We decided that we would maintain the normal level of sponsorship and assisting where possible as this would be the year that our clubs and organisations would need it most to get through to next year. We also decided to run a grants program based around “Community Helping Community”. This will run until the end of the year and can be extended if needed and will focus on bringing groups together to assist those who are isolated, vulnerable and in need of support. We have so far distributed \$70,000 with around \$130,000 in the application stage.

I can't thank our board enough for all of the work they have put in to support the staff and branch through this period. They have always been on the front foot driving positive outcomes and good governance for our company and considerations for the community. It is truly my privilege to work with such a skilled and knowledgeable group of people.

To our shareholders. You have been extraordinary in your show of faith to get the branch going in 2004 and have never wavered in your support. This has enabled us to build a great business and offer enormous support to the community over the last 16 years. For those who don't bank with us please consider the opportunity to bring your banking across and support the community even more. Just doing your banking with us will make a world of difference moving forward.

Whilst so far, 2020 has had many challenges, it has also provided exciting opportunities. The Board of Murrumbreena Community Financial Services Limited (MCFSL), made an offer to Ormond McKinnon Community Enterprises Limited (OMCEL) to acquire OMCEL's rights in relation to the revenue from its loans, deposits and other revenue generating business for \$925,000. Having consulted with Bendigo Bank and our Legal team, the Board entered into a conditional Purchase Agreement on 8 October 2020. The Agreement is subject to several pre-conditions including OMCEL shareholder approval. The transaction will be put to a shareholder vote at the OMCEL 2020 AGM on 5 November.

Other pre-conditions include MCFSL obtaining a \$775,000 loan from Bendigo Bank, Bendigo Bank agreeing to re-domicile OMCEL's customers to MCFSL and OMCEL terminating its franchise agreement with Bendigo Bank. If all pre-conditions are met or waived, OMCEL's business and customers will be merged into MCFSL's Murrumbreena Community Bank. Completion is expected to occur in late 2020.

If this purchase is approved, it is expected that Murrumbreena will grow its customer base by around 50% and will build upon strong community connections we have in the Ormond / McKinnon community. Murrumbreena Branch welcomes the opportunity to support the banking needs of these customers with skilled staff and full service banking.



Dennis Tarrant
Chairman

Senior Manager's report

For year ending 30 June 2020

The past year will certainly be recalled as a year of two very distinct halves. June 2019, we prepared for another year of providing banking services and community support to customers and organisations in our area. The year was going well, and we were on track in terms of our business written to budget and then Friday 13 February and our world changed.

Despite the challenges posed by the two lockdowns we have experienced our branch has continued to trade strongly and our staff have retained a very positive approach to the provision of these essential services whilst observing all the Covid precautions.

Strangely the last financial year was one of our strongest to date in terms of activity. With lending approvals of \$23.9m translating to settlements of \$18.171m the team have proven that with strong community engagement is consistent business outcomes. Discharges of \$15.572m meant that the subsequent growth from our activity was not realised with a negative growth of -\$2m for the year. The negative growth is partly attributable to the discharges as well as the amortisation as people are repaying debt in advance of their minimum repayments.

The 30 June deposit growth increased our total holdings to \$11m which is mainly attributed to end of Financial Year and Solicitors Trust Account funds showing a large increase of over \$6m. It is expected that a good portion of that increase will run off in the new financial year as settlement of estates and other matters roll out.

Since February we have seen a decline in peoples spending and, anecdotally, we see that funds normally reserved for holidays and renovations are now being paid into loans and debt reduction. Restrictions on house inspections and valuations has seen a stalling of the real estate sector where people have unfortunately been unable to buy and sell as they normally would and the trickle down effect has influenced consumer confidence as our city ponders post covid living.

Much of the work at Murrumbeena is centred around our investment into the community being support for customers and traders in our village as well as interacting with sporting clubs and community associations. This segment of our business has been severely impacted as many organisations have had to cease their normal operations, but Murrumbeena has been undaunted in its desire to continue with financial support of these organisations. We know that the financial assistance we provide is critical at this time and understand that our actions during this time will live long in the memories of the organisations and their members.

The Murrumbeena staffing has seen a few changes over the last 12 months. We farewellled Caleb Sheehan who took another role within the bank and we thank him for his contribution to Murrumbeena over the 12 months he was with us. Our long time staff member Lorraine Crabb retired in February and we know she is enjoying her retirement and we thank her for the many years of loyal service and care for our customers. We were very fortunate to welcome back a former staff member, Kerry Thompson, who spent the last 3 years as Manager of the Community Bank in Mission Beach Queensland. Kerry brings a wealth of knowledge and experience to our team and we are thrilled she is back in Murrumbeena.

Our existing team members Branch Manager Cheryl Gaston, Customer Relationship Officers Yolande Bouten and Kerrie Wyer and Customer Service Supervisor Karen Dewberry are to be commended on their dedication to their roles and the care and attention they provide to our many customers whether they chose to attend the branch in person or conduct their business via the various online options available. The customer is at the heart of everything we do in Murrumbeena and I am very proud of the professionalism exhibited by each and every one of our team who provide exceptional service every day.

Although 2020 will be remembered as a year full of challenges it has been an opportunity for all of us to commit to the true spirit of community and be there to help customers in their time of need. As we look to a new financial year, I am excited by the possibilities and opportunities in a changed world that we can create a 'Better Normal' both in terms of our banking proposition as well as our society.



Susan Foley
Senior 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

Director's 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:

Dennis Keith Tarrant

Chair

Occupation: Chief Executive Officer

Qualifications, experience and expertise: Chairman and CEO with experience in banking, finance and administration. Dennis has previously worked in hospitality management, consulting and wholesale distribution.

Special responsibilities: Member of the Community Investment, Marketing and Strategic Planning Committees

Interest in shares: 501 ordinary shares

Russell James Harper

Company Secretary

Risk & Compliance Manager, Office of the Superannuation

Qualifications, experience and expertise: Bachelor of Business (Business Administration), RMIT. A senior finance services and operations leader with extensive experience leading a diverse range of business operations and large-scale business units.

Particular skills in stakeholder relationship management, project management and execution, risk management, strategy development, call centre operations management, business continuity and incident management. Experienced leader of high performing teams in highly regulated and fast changing environments. Excellent analytical, communication and relationship management skills with high learning agility and strong skills in leading change, decision making and problem-solving.

Special responsibilities: Company Secretary

Interest in shares: nil share interest held

John Charles Coulson

Non-executive director

Occupation: Education Consultant – Part Time

Qualifications, experience and expertise: College Principal - Retired, Education Consultant - Part Time, President of Lions Club, Governor of the Shrine of Remembrance.

Special responsibilities: Member of the Community Investment, Marketing and Strategic Planning Committees

Interest in shares: nil share interest held

Anthony Gerard Lee

Non-executive director

Occupation: Director - Real Estate Agent

Qualifications, experience and expertise: Director Thomson Real Estate. Licensed Real Estate Agent with local property experience.

Special responsibilities: Deputy Chair, Property Committee, Share Liaison Officer

Interest in shares: 1,001 ordinary shares

Suzanne Paynter

Non-executive director

Occupation: Chief Executive Officer

Qualifications, experience and expertise: Bachelor of Law (Hons), Bachelor of International Studies, Diploma in Languages, Ministerial Advisor with South Australian State Government, Criminal Defence Solicitor, Major Event Consultant. Master of Business Administration (MBA).

Special responsibilities: Minute secretary

Interest in shares: nil share interest held

Director's report (continued)

Directors (continued)

Mili Thurgood

Non-executive director

Occupation: Senior Manager, Community Central (BEN)

Qualifications, experience and expertise: Human Resource Management roles for 6 years (HR Advisor role for 6 years prior). 5 years working for non-profit organisations in Malaysia & Afghanistan. Also worked professionally in Indonesia and South Korea. MBA with LaTrobe University.

Special responsibilities: Human Resources Committee

Interest in shares: nil share interest held

Andrew Craig Watts

Non-executive director

Occupation: Retired

Qualifications, experience and expertise: A seasoned finance industry executive, with extensive experience in technology, retail/marketing, organisational change, merger and acquisitions. 23 years with Bendigo & Adelaide Bank Limited including 10 years on its Executive Committee. Former director of Bendigo Telco Ltd, Strategic Payment Services Pty Ltd, and TicToc Online Pty Ltd. Bach. Eng (Civil), Grad Dip Mgt. GAICD.

Special responsibilities: Marketing Committee, Audit 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 Russell Harper. Russell was appointed to the position of secretary on 17 February 2014.

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 30 June 2020	Year ended 30 June 2019
\$	\$
83,006	33,591

Directors' interests

	Fully paid ordinary shares		
	Balance at start of the year	Changes during the year	Balance at end of the year
Dennis Keith Tarrant	501	-	501
Russell James Harper	-	-	-
John Charles Coulson	-	-	-
Anthony Gerard Lee	1,001	-	1,001
Suzanne Paynter	-	-	-
Mili Thurgood	-	-	-
Andrew Craig Watts	-	-	-

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

Director's report (continued)

Dividends

	Cents per share	Total amount
Final fully franked dividend	11	65,434
Total amount	<u>11</u>	<u>65,434</u>

New Accounting Standards implemented

The company has implemented a new accounting standard which has come into effect and is included in the results. AASB 16: *Leases* (AASB 16) has been applied retrospectively without restatement of comparatives by recognising the cumulative effect of initially applying AASB 16 as an adjustment to the opening balance of equity at 1 July 2019. Therefore, the 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 relief support and uncertain economic conditions has 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

Subsequent to the year end, the Board of Murrumbeena Community Financial Services Limited (MCFSL), has made an offer, in the form of a Purchase Agreement, to Ormond McKinnon Community Enterprises Limited (OMCEL) to acquire OMCEL's rights in relation to the revenue from its loans, deposits and other revenue generating business. Having consulted with Bendigo Bank and our Legal team, the Board has entered into the conditional Purchase Agreement, which is subject to several pre-conditions including OMCEL shareholder approval. The transaction will be put to a shareholder vote at the OMCEL 2020 AGM on 5 November.

There are no other 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.

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.

Director's report (continued)

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 Attended	
	<i>E</i>	<i>A</i>
Dennis Keith Tarrant	12	12
Russell James Harper	12	11
John Charles Coulson	12	11
Anthony Gerard Lee	12	10
Suzanne Paynter	12	9
Mili Thurgood	12	10
Andrew Craig Watts	12	10

E - eligible to attend

A - number attended

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.

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 Murrumbreena, Victoria.



Dennis Keith Tarrant, Chair

Dated this 12th day of October 2020

Auditor's independence declaration



Lead auditor's independence declaration under section 307C of the *Corporations Act 2001* to the directors of Murrumbeena Community Financial Services Ltd

As lead auditor for the audit of Murrumbeena Community Financial Services Ltd 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: 12 October 2020

Joshua Griffin
Lead Auditor

Financial statements

Statement of Comprehensive Income for the Year Ended 30 June 2020

	Notes	2020 \$	2019 \$
Revenue from contracts with customers	8	1,167,897	1,223,899
Other revenue	9	72,500	10,000
Finance income	10	5,110	9,043
Employee benefit expenses	11e)	(692,937)	(575,595)
Charitable donations, sponsorship, advertising and promotion	11d)	(226,396)	(407,808)
Occupancy and associated costs		(21,736)	(69,807)
Systems costs		(30,312)	(27,319)
Depreciation and amortisation expense	11a)	(61,311)	(18,675)
Finance costs	11b)	(21,313)	-
General administration expenses		(99,522)	(93,539)
Profit before income tax expense		91,980	50,199
Income tax expense	12a)	(8,974)	(16,608)
Profit after income tax expense		83,006	33,591
Total comprehensive income for the year attributable to the ordinary shareholders of the company:		83,006	33,591
Earnings per share		¢	¢
- Basic and diluted earnings per share:	30a)	13.95	5.65

The accompanying notes form part of these financial statements

Financial statements (continued)

Balance sheet as at 30 June 2020

	Notes	2020 \$	2019 \$
ASSETS			
Current assets			
Cash and cash equivalents	13a)	360,083	393,038
Trade and other receivables	14a)	98,867	110,644
Current tax assets	18a)	-	7,228
Total current assets		458,950	510,910
Non-current assets			
Property, plant and equipment	15a)	70,658	75,187
Right-of-use assets	16a)	405,727	-
Intangible assets	17a)	47,781	61,524
Deferred tax asset	18b)	15,023	4,327
Total non-current assets		539,189	141,038
Total assets		998,139	651,948
LIABILITIES			
Current liabilities			
Trade and other payables	19a)	60,758	156,208
Current tax liabilities	18a)	9,454	-
Lease liabilities	20b)	36,488	-
Employee benefits	22a)	48,788	47,081
Total current liabilities		155,488	203,289
Non-current liabilities			
Trade and other payables	19b)	29,609	44,414
Lease liabilities	20c)	379,459	-
Employee benefits	22b)	12,804	6,873
Provisions	21a)	22,227	-
Total non-current liabilities		444,099	51,287
Total liabilities		599,587	254,576
Net assets		398,552	397,372
EQUITY			
Issued capital	23a)	565,517	565,517
Accumulated losses	24	(166,965)	(168,145)
Total equity		398,552	397,372

The accompanying notes form part of these financial statements

Financial statements (continued)

Statement of changes in equity for the year ended 30 June 2020

	Notes	Issued capital \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2018		565,517	(136,302)	429,215
Total comprehensive income for the year		-	33,591	33,591
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	29a)	-	(65,434)	(65,434)
Balance at 30 June 2019		565,517	(168,145)	397,372
Balance at 1 July 2019		565,517	(168,145)	397,372
Effect of AASB 16: Leases	3d)	-	(16,392)	(16,392)
Restated balance at 1 July 2019		565,517	(184,537)	380,980
Total comprehensive income for the year		-	83,006	83,006
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	29a)	-	(65,434)	(65,434)
Balance at 30 June 2020		565,517	(166,965)	398,552

The accompanying notes form part of these financial statements

Financial statements (continued)

Statement of cashflows for the year ended 30 June 2020

	Notes	2020 \$	2019 \$
Cash flows from operating activities			
Receipts from customers		1,366,833	1,373,034
Payments to suppliers and employees		(1,257,519)	(1,220,383)
Interest received		5,535	10,220
Lease payments (interest component)	11b)	(20,275)	-
Lease payments not included in the measurement of lease liabilities	11f)	(4,166)	-
Income taxes paid		3,228	(14,354)
Net cash provided by operating activities	25	93,636	148,517
Cash flows from investing activities			
Payments for property, plant and equipment		(450)	(3,371)
Payments for intangible assets		(26,918)	-
Net cash used in investing activities		(27,368)	(3,371)
Cash flows from financing activities			
Lease payments (principal component)	20a)	(33,789)	-
Dividends paid	29a)	(65,434)	(65,434)
Net cash used in financing activities		(99,223)	(65,434)
Net cash increase/(decrease) in cash held		(32,955)	79,712
Cash and cash equivalents at the beginning of the financial year		393,038	313,326
Cash and cash equivalents at the end of the financial year	13a)	360,083	393,038

The accompanying notes form part of these financial statements

Notes to the financial statements

For the Year Ended 30 June 2020

Note 1 Reporting entity

This is the financial report for Murrumbeena 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
436 Neerim Road Murrumbeena VIC 3163	436 Neerim Road Murrumbeena VIC 3163

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

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, except for certain properties, financial instruments, and equity financial assets that are measured at revalued amounts or fair values 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 12 October 2020.

Note 3 Changes in accounting policies, standards and interpretations

The company initially applied AASB 16 *Leases* from 1 July 2019. AASB Interpretation 23 *Uncertainty over Income Tax Treatments* is also effective from 1 July 2019 but is not expected to have a material impact on the company's financial statements. The company's existing policy for uncertain income tax treatments is consistent with the requirements in Interpretation 23.

The company has implemented a new Accounting Standard which has come into effect and is included in the results. AASB 16: Leases (AASB 16) has been applied retrospectively without restatement of comparatives by recognising the cumulative effect of initially applying AASB 16 as an adjustment to the opening balance of equity at 1 July 2019. Therefore, the comparative information has not been restated and continues to be reported under AASB 117: Leases.

a) Definition of a lease

Previously, the company determined at contract inception whether an arrangement was or contained a lease under Interpretation 4 *Determining whether an Arrangement contains a Lease*. The company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 20.

On transition to AASB 16, the company elected to apply the practical expedient to grandfather the assessment of which transactions are 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. Therefore, the definition of a lease under AASB 16 was applied only to contracts entered into or changed on or after 1 July 2019.

Notes to the financial statements (continued)

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

b) As a lessee

As a lessee, the company leases many assets including property, motor vehicles, office equipment 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).

The company recognises lease and non-lease components such as outgoings separately.

Leases classified as operating leases under AASB 117

Previously, the company classified property, office equipment, and IT equipment 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 either:

- 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 applied this approach to its property lease; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments; the company applied this approach to all other leases.

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:

- did not recognise right-of-use assets and liabilities for leases which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. office equipment and IT
- 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 an arrangement where it is a lessor. The company is not required to make any adjustments on transition to AASB 16 for leases in which it acts as a lessor.

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.

<i>Impact on equity presented as increase (decrease)</i>	Note	1 July 2019 \$
Asset		
Right-of-use assets - land and buildings	16b)	425,611
Deferred tax asset	18b)	6,218
Liability		
Lease liabilities	20a)	(427,032)
Provision for make-good	21b)	(21,189)
Equity		
Accumulated losses		<u>(16,392)</u>

Notes to the financial statements (continued)

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 4.79%.

Lease liabilities reconciliation on transition

Operating lease disclosure as at June 2019	172,468
Add: additional options now expected to be exercised	368,478
Less: AASB 117 lease commitments reconciliation	690
Less: present value discounting	(114,604)
Lease liability as at 1 July 2019	<u>427,032</u>

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 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:

<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.

Notes to the financial statements (continued)

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.

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. The effect of the change on the revenue earned by the company is entirely dependent on the change.

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 services are provided.

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

Notes to the financial statements (continued)

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

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 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 when the cash flow of the company improves.

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.

Notes to the financial statements (continued)

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

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 (including non-monetary benefits), annual leave, and sick leave which are expected to be wholly settled within 12 months of the reporting date. They are measured at amounts expected to be paid when the liabilities are settled, plus related on-costs. Expenses for non-accumulating sick leave are recognised 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.

Contributions to a defined contribution plan are expected to be settled wholly before 12 months after the end of the financial year in which the employees render the related service.

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 estimate 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.

The company has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore recognises them under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

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.

Notes to the financial statements (continued)

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

e) Taxes

Deferred tax (continued)

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

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. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

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.

The company offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities related to income taxes levied by the same taxation authority on the company either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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, deposits held with banks, and short-term, highly liquid investments (mainly money market funds) 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 or fair value as applicable, which includes capitalised borrowings costs, less accumulated depreciation and any accumulated impairment losses.

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 the future economic benefits associated with the expenditure 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 straight-line or diminishing value method over their estimated useful lives, and is recognised in profit or loss. Land is not depreciated.

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 and diminishing value	5 to 40 years
Plant and equipment	Straight-line and diminishing value	4 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 include the franchise fees paid to Bendigo Bank conveying the right to operate the Community Bank franchise.

Recognition and measurement

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed as either finite or indefinite.

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, including expenditure on internally generated goodwill, is recognised in profit or loss as incurred.

Amortisation

Intangible assets with finite lives are amortised over their useful life and assessed for impairment whenever impairment indicators are present. Intangible assets assessed as having indefinite useful lives are tested for impairment at each reporting period and whenever impairment indicators are present. The indefinite useful life is also reassessed annually.

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.

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.

Sub-note i) and j) refer to the following acronyms:

<u>Acronym</u>	<u>Meaning</u>
FVTPL	Fair value through profit or loss
FVTOCI	Fair value through other comprehensive income
SPPI	Solely payments of principal and interest
ECL	Expected credit loss
CGU	Cash-generating unit

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 plus, for an item not at FVTPL, transaction costs that are directly attributable to the acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVTOCI - debt investment; FVTOCI - equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVTOCI as described above are measured at FVTPL. On initial recognition, the company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVTOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets - business model assessment

The company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed.

Financial assets - subsequent measurement and gains and losses

- Financial assets at amortised cost These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment are recognised in profit or loss. 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)

Classification and subsequent measurement (continued)

Financial liabilities - classification, subsequent measurement and gains and losses

Borrowings and other financial liabilities (including trade payables) are classified as measured at amortised cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

Financial assets

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.

Where the company enters into transactions where it transfers assets recognised in the statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred asset, the transferred assets are not derecognised.

Financial liabilities

The company derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire. The company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

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.

Offsetting

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

The company recognises a loss allowance for ECL on:

- financial assets that are measured at FVTOCI;
- lease receivables;
- loan commitments that are not measured at FVTPL; and
- financial guarantee contracts that are not measured at FVTPL.

Loss allowance is not recognised for:

- financial assets measured at FVTPL; or
- equity instruments measured at FVTOCI.

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, all discounted at the original effective interest rate of the financial instrument.

The company uses the simplified approach to impairment. The simplified approach does not require tracking of changes in credit risk at every reporting period, but instead requires the recognition of lifetime ECL at all times.

Notes to the financial statements (continued)

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

j) Impairment (*continued*)

Non-derivative financial assets (continued)

This approach is applicable to:

- trade receivables that result from transactions that are within the scope of AASB 15, that contain a significant financing component; and
- lease receivables.

In measuring the ECL, a provision matrix for trade receivables is used, taking into consideration various data to get to an ECL, (ie diversity of its customer base, appropriate groupings of its historical loss experience etc.).

Recognition of expected credit losses in financial statements

At each reporting date, the entity recognises the movement in the loss allowance as an impairment gain or loss in the statement of profit or loss and other comprehensive income.

The directors have assessed the ECL and noted it is not material.

Non-financial assets

At each reporting date, the company reviews the carrying amount of its non-financial assets (other than investment property, 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) 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.

The estimated provisions for 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 its/their original condition before the end of the lease term. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements, ATM installed at the branch, and incidental damage caused from the removal of assets.

m) Leases

The company has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117 and Interpretation 4. The details of accounting policies under AASB 117 and Interpretation 4 are disclosed separately.

Notes to the financial statements (continued)

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

m) Leases (*continued*)

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. To assess whether a contract conveys the right to control the use of an identified asset, the company uses the definition of a lease in AASB 16.

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

As a lessee

At commencement or on modification of a contract that contains a lease component, the company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, 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.

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 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, unless the lease transfers ownership of the underlying asset to the company by the end of the lease term or the costs of the right-of-use asset reflects that the company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. 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 lease payments that are not paid 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;
- amounts expected to be payable under a residual guarantee; and
- the exercise price under a purchase option the company is reasonable certain to exercise, lease payments in an option renewal period if the group is reasonably certain to exercise that option, and penalties for early termination of a lease unless the group is reasonably certain not to terminate early.

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 there is a change in the company's estimate of the amount expected to be payable under a residual value guarantee, if the company changes its assessment of whether it will exercise a purchase, extension or termination option 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.

Notes to the financial statements (continued)

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.

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 8 - revenue recognition	whether revenue is recognised over time or at a point in time;
- 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: <ul style="list-style-type: none">- 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 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 8 - revenue recognition	estimate of expected returns;
- Note 15 - estimation of useful lives of assets	key assumptions on historical experience and the condition of the asset;
- Note 18 - recognition of deferred tax assets	availability of future taxable profit against which deductible temporary differences and carried-forward tax losses can be utilised;
- 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;

Notes to the financial statements (continued)

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 currency, price, cash flow and fair value interest rate).

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.

The company has no significant concentrations of credit risk. It has policies in place to ensure that customers have an appropriate credit history. The company's franchise agreement limits the company's credit exposure to one financial institution, being Bendigo 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 settled by delivering cash or another financial asset. 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 believes that its sound relationship with Bendigo Bank mitigates this risk significantly.

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

<u>Non-derivative financial liability</u>	Contractual cash flows			
	<u>Carrying amount</u>	<u>Not later than 12 months</u>	<u>Between 12 months and five years</u>	<u>Greater than five years</u>
Lease liabilities	415,947	55,618	22,473	238,100
Trade payables	14,471	14,471	-	-
	<u>430,418</u>	<u>70,089</u>	<u>22,473</u>	<u>238,100</u>

30 June 2019

<u>Non-derivative financial liability</u>	Contractual cash flows			
	<u>Carrying amount</u>	<u>Not later than 12 months</u>	<u>Between 12 months and five years</u>	<u>Greater than five years</u>
Trade payables	103,546	103,546	-	-
	<u>103,546</u>	<u>103,546</u>	<u>-</u>	<u>-</u>

Notes to the financial statements (continued)

Note 6 Financial risk management (*continued*)

c) Market risk

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 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 believes that its sound relationship with Bendigo Bank mitigates this risk significantly.

The company held cash and cash equivalents of \$360,083 at 30 June 2020 (2019: \$393,038). 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 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.

<i>Revenue from contracts with customers</i>	2020	2019
	\$	\$
Revenue:		
- Revenue from contracts with customers	1,167,897	1,223,899
	<u>1,167,897</u>	<u>1,223,899</u>

Disaggregation of revenue from contracts with customers

At a point in time:

- Margin income	1,023,091	1,056,278
- Fee income	70,584	76,785
- Commission income	74,222	90,836
	<u>1,167,897</u>	<u>1,223,899</u>

There was no revenue from contracts with customers recognised over time during the financial year.

Note 9 Other revenue

The company generated other sources of revenue from discretionary contributions received from the franchisor and Cash flow boost income received from the Australian Government.

<i>Other revenue</i>	2020	2019
	\$	\$
Revenue:		
- Market development fund income	10,000	10,000
- Cash flow boost	62,500	-
	<u>72,500</u>	<u>10,000</u>

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.

<i>Finance income</i>	2020	2019
	\$	\$
At amortised cost:		
- Term deposits	5,110	9,043
	<u>5,110</u>	<u>9,043</u>

Notes to the financial statements (continued)

Note 11 Expenses

a) Depreciation and amortisation expense		2020 \$	2019 \$
<i>Depreciation of non-current assets:</i>			
- Leasehold improvements		1,728	1,840
- Plant and equipment		3,251	3,278
		<u>4,979</u>	<u>5,118</u>
<i>Depreciation of right-of-use assets</i>			
- Leased land and buildings		42,589	-
		<u>42,589</u>	<u>-</u>
<i>Amortisation of intangible assets:</i>			
- Franchise fee		2,291	2,259
- Franchise renewal process fee		11,452	11,298
		<u>13,743</u>	<u>13,557</u>
Total depreciation and amortisation expense		<u>61,311</u>	<u>18,675</u>

The non-current tangible and intangible assets listed above are depreciated and amortised in accordance with the company's accounting policy (see Note 4F and 4G).

b) Finance costs		Note	2020 \$	2019 \$
<i>Finance costs:</i>				
- Lease interest expense	20a)		20,275	-
- Unwinding of make-good provision			1,038	-
			<u>21,313</u>	<u>-</u>

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

c) Impairment loss on trade receivables and contract assets

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 exposure of the company. 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.

d) Charitable donations, sponsorship, advertising and promotion

The overarching philosophy of the Community Bank model, is to support the local community in which the company operates. This is achieved by circulating the flow of financial capital into the local economy through community contributions (such as donations and grants).

	2020 \$	2019 \$
- Direct sponsorship, advertising, and promotion payments	126,396	187,808
- Contribution to the Community Enterprise Foundation™	100,000	220,000
	<u>226,396</u>	<u>407,808</u>

Notes to the financial statements (continued)

Note 11 Expenses (continued)

d) Charitable donations, sponsorship, advertising and promotion (continued)

The funds contributed are held by the Community Enterprise Foundation (CEF) and are available for distribution as grants to eligible applicants for a specific purpose in consultation with the directors.

When the company pays a contribution in to the CEF, the company loses control over the funds at that point. While the directors are involved in the payment of grants, the funds are not refundable to the company.

e) Employee benefit expenses	2020 \$	2019 \$
Wages and salaries	620,590	495,711
Contributions to defined contribution plans	56,774	48,790
Expenses related to long service leave	(2,430)	4,568
Other expenses	18,003	26,526
	<u>692,937</u>	<u>575,595</u>

f) 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	4,166	-
	<u>4,166</u>	<u>-</u>

Expenses relating to leases exempt from recognition are included in systems costs.

The company pays for the right to use information technology equipment. The underlying assets have been assessed as low value and exempted from recognition.

Note 12 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 \$
<i>Current tax expense/(credit)</i>		
- Current tax	13,454	7,772
- Movement in deferred tax	(11,564)	8,836
- Adjustment to deferred tax on AASB 16 retrospective application	6,218	-
- Adjustment to deferred tax to reflect reduction in tax rate in future periods	866	-
	<u>8,974</u>	<u>16,608</u>

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 gain of \$867 related to the remeasurement of deferred tax assets and liabilities of the company.

Notes to the financial statements (continued)

Note 12 Income tax expense (continued)

b) <i>Prima facie</i> income tax reconciliation	2020 \$	2019 \$
Operating profit before taxation	91,980	50,199
Prima facie tax on profit from ordinary activities at 27.5% (2019: 27.5%)	25,295	13,804
Tax effect of:		
- Non-deductible expenses	-	2,804
- Temporary differences	5,347	-
- Other assessable income	(17,188)	-
- Movement in deferred tax	(11,564)	8,836
- Leases initial recognition	6,218	-
- Reduction in company tax rate	866	-
	<u>8,974</u>	<u>25,444</u>

Note 13 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	110,083	143,038
- Term deposits	250,000	250,000
	<u>360,083</u>	<u>393,038</u>

Note 14 Trade and other receivables

a) Current assets	2020 \$	2019 \$
Trade receivables	88,915	97,562
Prepayments	8,157	10,862
Other receivables and accruals	1,795	2,220
	<u>98,867</u>	<u>110,644</u>

Note 15 Property, plant and equipment

a) Carrying amounts	2020 \$	2019 \$
<i>Leasehold improvements</i>		
At cost	102,527	102,527
Less: accumulated depreciation and impairment	(62,257)	(60,529)
	<u>40,270</u>	<u>41,998</u>

Notes to the financial statements (continued)

Note 15 Property, plant and equipment (continued)

a) Carrying amounts (continued)	2020 \$	2019 \$
<i>Plant and equipment</i>		
At cost	94,429	93,979
Less: accumulated depreciation and impairment	(64,041)	(60,790)
	<u>30,388</u>	<u>33,189</u>
Total written down amount	<u>70,658</u>	<u>75,187</u>

The directors do not believe the carrying amount exceeds the recoverable amount of the above assets. The directors therefore believe the carrying amount is not impaired.

b) Reconciliation of carrying amounts	2020 \$	2019 \$
<i>Leasehold improvements</i>		
Carrying amount at beginning	41,998	43,838
Depreciation	(1,728)	(1,840)
Carrying amount at end	<u>40,270</u>	<u>41,998</u>
<i>Plant and equipment</i>		
Carrying amount at beginning	33,189	33,095
Additions	450	3,372
Depreciation	(3,251)	(3,278)
Carrying amount at end	<u>30,388</u>	<u>33,189</u>
Total written down amount	<u>70,658</u>	<u>75,187</u>

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 16 Right-of-use assets

Right-of-use assets are measured at amounts equal to the present value of enforceable future payments on the adoption date, adjusted for lease incentives, make-good provisions, and initial direct costs.

The company derecognises right-of-use assets at the termination of the lease period or when no future economic benefits are expected to be derived from the use of the underlying asset.

Notes to the financial statements (continued)

Note 16 Right-of-use assets (continued)

a) Carrying amounts	Note	2020 \$	2019 \$
<i>Leased land and buildings</i>			
At cost		521,882	-
Less: accumulated depreciation and impairment		(116,155)	-
		<u>405,727</u>	<u>-</u>
Total written down amount		<u>405,727</u>	<u>-</u>
b) Reconciliation of carrying amounts			
<i>Leased land and buildings</i>			
Initial recognition on transition	3d)	499,178	-
Accumulated depreciation on adoption	3d)	(73,567)	-
Remeasurement adjustments		22,705	-
Depreciation		(42,589)	-
Carrying amount at end		<u>405,727</u>	<u>-</u>
Total written down amount		<u>405,727</u>	<u>-</u>

Note 17 Intangible assets

a) Carrying amounts	2020 \$	2019 \$
<i>Franchise fee</i>		
At cost	93,917	93,917
Less: accumulated amortisation and impairment	(85,953)	(83,662)
	<u>7,964</u>	<u>10,255</u>
<i>Franchise renewal process fee</i>		
At cost	169,577	169,577
Less: accumulated amortisation and impairment	(129,760)	(118,308)
	<u>39,817</u>	<u>51,269</u>
Total written down amount	<u>47,781</u>	<u>61,524</u>
b) Reconciliation of carrying amounts		
<i>Franchise fee</i>		
Carrying amount at beginning	10,255	1,527
Additions	-	10,987
Amortisation	(2,291)	(2,259)
Carrying amount at end	<u>7,964</u>	<u>10,255</u>

Notes to the financial statements (continued)

Note 17 Intangible assets (continued)

b) Reconciliation of carrying amounts (continued)

	2020 \$	2019 \$
<i>Franchise renewal process fee</i>		
Carrying amount at beginning	51,269	7,635
Additions	-	54,932
Amortisation	(11,452)	(11,298)
Carrying amount at end	39,817	51,269
Total written down amount	47,781	61,524

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 18 Tax assets and liabilities

a) Current tax

	2020 \$	2019 \$
Income tax payable/(refundable)	9,454	(7,228)

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 other comprehensive income \$	Recognised in equity \$	30 June 2020 \$
<i>Deferred tax assets</i>					
- expense accruals	798	(18)	-	-	780
- employee provisions	18,275	339	-	-	18,614
- make-good provision	-	(48)	-	5,827	5,779
- lease liability	-	(9,288)	-	117,434	108,146
Total deferred tax assets	19,073	(9,015)	-	123,261	133,319
<i>Deferred tax liabilities</i>					
- income accruals	528	(139)	-	-	389
- property, plant and equipment	14,218	(1,800)	-	-	12,418
- right-of-use assets	-	(11,554)	-	117,043	105,489
Total deferred tax liabilities	14,746	(13,493)	-	117,043	118,296
Net deferred tax assets (liabilities)	4,327	4,478	-	6,218	15,023

Notes to the financial statements (continued)

Note 18 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 other comprehensive income	Recognised in equity	30 June 2019
	\$	\$	\$	\$	\$
<i>Deferred tax assets</i>					
- expense accruals	743	55	-	-	798
- employee provisions	21,944	(3,669)	-	-	18,275
Total deferred tax assets	22,687	(3,614)	-	-	19,073
<i>Deferred tax liabilities</i>					
- income accruals	852	(324)	-	-	528
- property, plant and equipment	8,672	5,546	-	-	14,218
Total deferred tax liabilities	9,524	5,222	-	-	14,746
Net deferred tax assets (liabilities)	13,163	(8,836)	-	-	4,327

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 19 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	14,471	103,546
Other creditors and accruals	46,287	52,662
	60,758	156,208

b) Non-current liabilities

Trade creditors	29,609	44,414
	29,609	44,414

Notes to the financial statements (continued)

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 4.79%.

The discount rate used in calculating the present value of enforceable future payments takes into account the particular circumstances applicable to the underlying leased assets (including the amount, lease term, economic environment, and other relevant factors).

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

Lease portfolio

The company's lease portfolio includes:

- **Branch premises** The lease agreement is a non-cancellable lease with an initial term of 5 years which commenced in 26 March 2017. An extension option term of 5 years was exercised in 1 January 2020. The lease has a further 5 year extension option available. The company is reasonably certain to exercise the final five-year lease term.
- **Branch hub** The lease agreement is a non-cancellable lease with an initial term of 5 years which commenced in 25 March 2019. The lease has a further 5 year extension option available. The company is reasonably certain to exercise the final five-year lease term.

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.

a) Lease liability measurement

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.

<i>Lease liabilities on transition</i>	Note	2020 \$	2019 \$
Initial recognition on AASB 16 transition	3d)	427,032	-
Additional lease liabilities recognised		22,704	-
Lease payments - interest		20,275	-
Lease payments		(54,064)	-
		<u>415,947</u>	<u>-</u>

b) Current lease liabilities

Property lease liabilities	55,618	-
Unexpired interest	(19,130)	-
	<u>36,488</u>	<u>-</u>

Notes to the financial statements (continued)

Note 20 Lease liabilities (continued)

	2020 \$	2019 \$
c) Non-current lease liabilities		
Property lease liabilities	460,573	-
Unexpired interest	(81,114)	-
	<u>379,459</u>	<u>-</u>
d) Maturity analysis		
- Not later than 12 months	55,618	-
- Between 12 months and 5 years	222,473	-
- Greater than 5 years	238,100	-
Total undiscounted lease payments	<u>516,191</u>	<u>-</u>
Unexpired interest	(100,244)	-
Present value of lease liabilities	<u>415,947</u>	<u>-</u>

e) Impact on the current reporting period

During the financial year, the company has mandatorily adopted AASB 16 for the measurement and recognition of its leases. 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. The following note presents the impact on the profit or loss for the current reporting period.

Comparison under current AASB 16 and former AASB 117

The net impact for the current reporting period is an decrease in profit after tax of \$22,585.

	AASB 117 expense not recognised	Impact on current reporting period	AASB 16 expense now recognised
Profit or loss - increase (decrease) in expenses			
- Occupancy and associated costs	54,064	(54,064)	-
- Depreciation and amortisation expense	-	63,902	63,902
- Finance costs	-	21,313	21,313
Increase in expenses - before tax	<u>54,064</u>	<u>31,151</u>	<u>85,215</u>
- Income tax expense / (credit) - current	(14,868)	14,868	-
- Income tax expense / (credit) - deferred	-	(23,434)	(23,434)
Increase in expenses - after tax	<u>39,196</u>	<u>22,585</u>	<u>61,781</u>

Notes to the financial statements (continued)

Note 21 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	22,227	-
	<u>22,227</u>	<u>-</u>

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 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.

Provision	Note	2020 \$	2019 \$
Face-value of make-good costs recognised	3d)	35,000	-
Present value discounting	3d)	(13,811)	-
Present value unwinding		1,038	-
		<u>22,227</u>	<u>-</u>

c) Changes in estimates

During the financial year, the company re-assessed the lease agreement with respect to the make-good and restoration clauses. The estimated costs were revised with respect 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.

Profit or loss	2020	2021	2022	2023	2024+
Expense:					
- Finance costs	1,038	1,085	1,142	1,198	9,349
- Depreciation and amortisation	2,762.18	2,762	2,762	2,762	2,762.18
Statement of financial position					
Liability:					
- Make-good provision	22,227	23,312	24,454	25,651	35,000

Note 22 Employee benefits

a) Current liabilities	2020 \$	2019 \$
Provision for annual leave	42,450	32,382
Provision for long service leave	6,338	14,699
	<u>48,788</u>	<u>47,081</u>

Notes to the financial statements (continued)

Note 22 Employee benefits (continued)

	2020	2019
	\$	\$
b) Non-current liabilities		
Provision for long service leave	12,804	6,873
	<u>12,804</u>	<u>6,873</u>

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.

In the absence of sufficient historical employee attrition rates, the company applies a benchmark probability rate from across the Community Bank network to factor in estimating the probability of an employee, at a given date, achieving continuous employment eligible for entitlement in accordance with legislation.

Note 23 Issued capital

	2020		2019	
a) Issued capital	Number	\$	Number	\$
Ordinary shares - fully paid	594,857	594,857	594,857	594,857
Less: equity raising costs	-	(29,340)	-	(29,340)
	<u>594,857</u>	<u>565,517</u>	<u>594,857</u>	<u>565,517</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).

Notes to the financial statements (continued)

Note 23 Issued capital (*continued*)

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").

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	2020 \$	2019 \$
Balance at beginning of reporting period		(168,145)	(136,302)
Adjustment for transition to AASB 16	3d)	(16,392)	-
Net profit after tax from ordinary activities		83,006	33,591
Dividends provided for or paid		(65,434)	(65,434)
Balance at end of reporting period		<u>(166,965)</u>	<u>(168,145)</u>

Notes to the financial statements (continued)

Note 25 Reconciliation of cash flows from operating activities

	2020 \$	2019 \$
Net profit after tax from ordinary activities	83,006	33,591
Adjustments for:		
- Depreciation	47,568	5,118
- Amortisation	13,743	13,557
Changes in assets and liabilities:		
- (Increase)/decrease in trade and other receivables	11,778	14,450
- (Increase)/decrease in other assets	2,748	2,254
- Increase/(decrease) in trade and other payables	(83,336)	85,390
- Increase/(decrease) in employee benefits	7,638	-
- Increase/(decrease) in provisions	1,037	(5,843)
- Increase/(decrease) in tax liabilities	9,454	-
Net cash flows provided by operating activities	<u>93,636</u>	<u>148,517</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	2020 \$	2019 \$
Financial assets			
Trade and other receivables	14	90,710	99,782
Cash and cash equivalents	13	110,083	143,038
Term deposits	13	250,000	250,000
		<u>450,793</u>	<u>492,820</u>
Financial liabilities			
Trade and other payables	19	44,080	147,960
Lease liabilities	20	415,947	-
		<u>44,080</u>	<u>147,960</u>

Notes to the financial statements (continued)

Note 27 Auditor's remuneration

Amount received or due and receivable by the auditor of the company for the financial year.	2020 \$	2019 \$
<i>Audit and review services</i>		
- Audit and review of financial statements	4,800	4,600
	<u>4,800</u>	<u>4,600</u>
<i>Non audit services</i>		
- Taxation advice and tax compliance services	600	600
- General advisory services	2,400	1,830
- Share registry services	3,107	3,233
	<u>6,107</u>	<u>5,663</u>
Total auditor's remuneration	<u>10,907</u>	<u>10,263</u>

Note 28 Related parties

a) Details of key management personnel

The directors of the company during the financial year were:

Dennis Keith Tarrant
 Russell James Harper
 John Charles Coulson
 Anthony Gerard Lee
 Suzanne Paynter
 Mili Thurgood
 Andrew Craig Watts

b) Key management personnel compensation

Key management personnel compensation comprised the following.	2020 \$	2019 \$
Short-term employee benefits	79,418	74,261
Post-employment benefits	7,545	7,055
	<u>86,963</u>	<u>81,316</u>

Compensation of the company's key management personnel includes salaries, contributions to a post-employment defined contribution plan, and long service leave entitlements.

c) Related party transactions

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

Notes to the financial statements (continued)

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 2020		30 June 2019	
	Cents	\$	Cents	\$
Fully franked dividend	11	65,434	11	65,434
Total dividends paid during the financial year	11	65,434	11	65,434

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

b) Franking account balance

	2020 \$	2019 \$
<i>Franking credits available for subsequent reporting periods</i>		
Franking account balance at the beginning of the financial year	61,258	61,258
Franking transactions during the financial year:		
- Franking credits (debits) arising from income taxes paid (refunded)	4,000	-
- franking credits/(debits) from the payment/(refund) of income tax following lodgement of annual income tax return	(7,228)	-
- Franking debits from the payment of franked distributions	(24,820)	-
Franking account balance at the end of the financial year	33,210	61,258
Franking transactions that will arise subsequent to the financial year end:		
- Franking credits (debits) that will arise from payment (refund) of income tax	9,454	-
Franking credits available for future reporting periods	42,664	61,258

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

Note 30 Earnings per share

a) Based 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	83,006	33,591
	Number	Number
Weighted-average number of ordinary shares	594,857	594,857
	Cents	Cents
Basic and diluted earnings per share	13.95	5.65

Notes to the financial statements (continued)

Note 31 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 20).

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	-	52,084
- between 12 months and 5 years	-	120,384
- greater than 5 years	-	-
Minimum lease payments payable	-	172,468

b) Other commitments

The company has no other 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

Subsequent to the year end, the Board of Murrumbreena Community Financial Services Limited (MCFSL), has made an offer, in the form of a Purchase Agreement, to Ormond McKinnon Community Enterprises Limited (OMCEL) to acquire OMCEL's rights in relation to the revenue from its loans, deposits and other revenue generating business. Having consulted with Bendigo Bank and our Legal team, the Board has entered into the conditional Purchase Agreement, which is subject to several pre-conditions including OMCEL shareholder approval. The transaction will be put to a shareholder vote at the OMCEL 2020 AGM on 5 November.

There have been no other 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.

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Directors' declaration

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.



Dennis Keith Tarrant, Chair

Dated this 12th day of October 2020

Independant audit report



Independent auditor's report to the members of Murrumbeena Community Financial Services Ltd

Report on the audit of the financial report

Our opinion

In our opinion, the accompanying financial report of Murrumbeena Community Financial Services Ltd, 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

Murrumbeena Community Financial Services Ltd'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.

Independant audit 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.

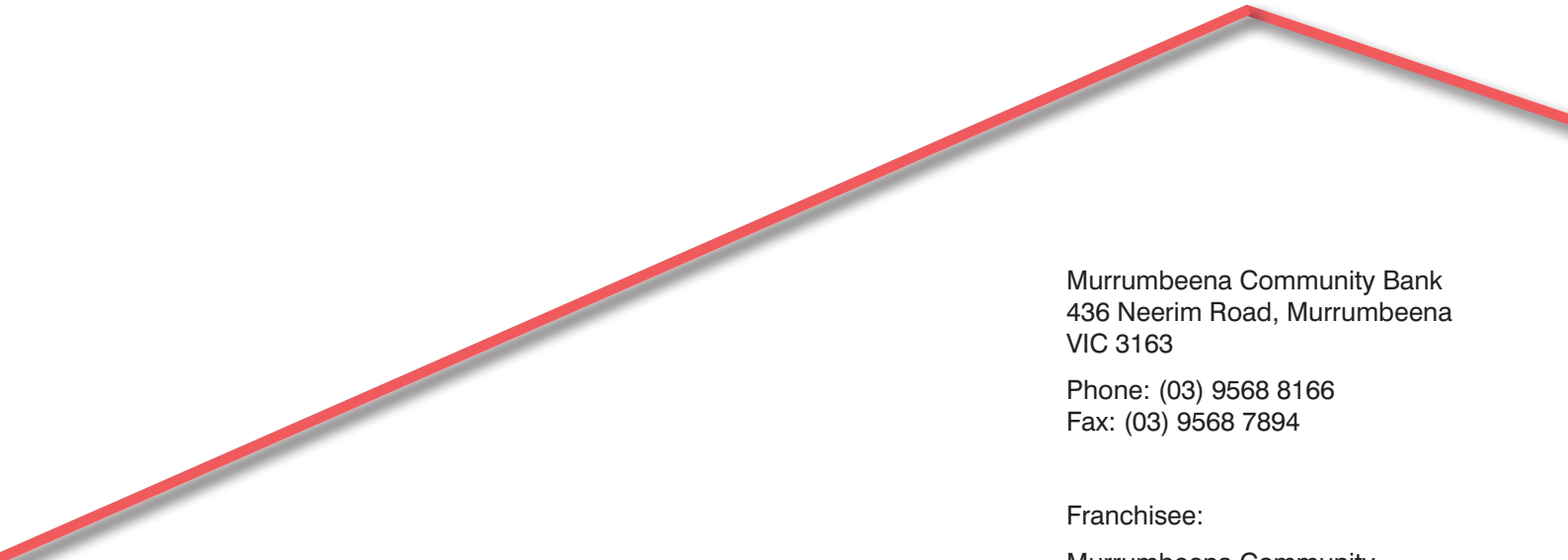


Andrew Frewin Stewart
61 Bull Street, Bendigo, 3550
Dated: 9 August 2019



Joshua Griffin
Lead Auditor

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Murrumbeena Community Bank
436 Neerim Road, Murrumbeena
VIC 3163

Phone: (03) 9568 8166
Fax: (03) 9568 7894

Franchisee:

Murrumbeena Community
Financial Services Limited
436 Neerim Road, Murrumbeena
VIC 3163

Phone: (03) 9568 8166
Fax: (03) 9568 7894

ABN: 47 104 667 361

[www.bendigobank.com.au](http://www.bendigobank.com.au/murrumbeena)
/murrumbeena

(BA GraphicDesign 0403212694)
(October/2020)

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Murrumbeena Community Bank

 **Bendigo Bank**

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