Annual Report 2020

North Central Financial Services Limited

Community Bank
Charlton & District

ABN 90 140 265 394

Contents

Chairman’s report

For year ending 30 June 2020

Greetings fellow shareholders. It is with much pleasure that I present my report as the current Chairman of North Central Financial Services Limited (NCFS). At the time of writing, with the current COVID-19 restrictions, it is uncertain as to whether we will be able to meet face-to-face or have to meet electronically via the internet for our AGM.

Despite the upheaval that COVID-19 has had and is continuing to cause in our community, the Board and your company have continued to be very active during the last twelve months. We have been very lucky in that the Buloke Shire, at the time of writing, has not had a single COVID-19 case being recorded. Let us all hope that this remains so.

We thank all our clients for their willingness to work with our staff in helping to meet the current restrictions. Your cooperation assists in continuing to ensure both their and your own good health.

The seasonal prospects for agriculture are currently looking good and are helping to buoy our community’s spirits during these trying times.

Beyond COVID-19, challenges continue to remain in the banking sector. The extremely low interest rates whilst being a boom to our customers, has had an ongoing and significant impact on our bottom line. This is especially so in terms of margins earned. Your company (NCFS) continues to be profitable and viable, albeit at a lower rate of return. It has brought into focus, just how important has been the recent completion of the Boards aims to recapitalize the company’s financial base.

Board activity

Despite the re-emergence of COVID-19 and its associated risks (I quote Yogi Bear “It’s Deja Vu all over again”), the Board has remained focused on our core and future business. We have been actively seeking opportunities to interact and seek beneficial synergies between ourselves and other Community Banks. Whilst these discussions are in the early stage, it is very important that for the future financial wellbeing of your company, that all opportunities to increase revenue, deliver a better service to our clients and support you, our shareholders, are fully investigated.

Share buyback offer

It is disappointing to have to report that little progress has been made in developing a workable small Share buyback proposal. Bendigo and Adelaide Bank Limited in consultation with the Community Bank National Council has a draft proposal that in the current form would do little to help facilitate this important reform. We are continuing to communicate with Bendigo Bank about this matter.

Board retirements and elections

This year the retiring Directors are Alan Getley, Mathew McGurk and Angela Poxon. They are all eligible for election and have all nominated for a further three year term. The Board welcomed and appointed Winifred Scott to fill a casual vacancy that occurred during the year. Her appointment is also up for ratification at this meeting.

The vacancy was due to the retirement of long standing and foundation Board member Peter Rogan. Peter has been a driving force and significant member of NCFS from the initial idea of trying to establish a Community Bank. He was both on the steering committee and subsequently elected to the Board. He has served as both Chairman and Vice Chairman as well as on many sub committees. On a personal note I wish to thank him for the many words of wisdom and guidance that he has provided to me, both prior to and since becoming Chairman. The Board of NCFS wishes him and Kathy all the best in their future endeavours.

Bank staff

This year has seen very limited staff turnover. Tamara will be leaving the Bank in late December on maternity leave and we wish her all the best. Manager Glenden Watts has been restricted in his ability to visit current, new and potential clients but with the end of COVID-19 restrictions we are planning to have him ‘out and about’.
The Board and Glenden look forward to continuing growth in our business and in striving to give all our clients a great banking experience. The Board thanks all staff members for their effort and continued service to us and our Community during the abnormal stresses of the last few months.

Dividend

The Board has made the difficult decision to reduce our dividend this year to two cents per share. This decision has been driven by the ongoing effects of both the COVID-19 pandemic and the much reduced margins due to the very low interest rates. Whilst this is disappointing, the Board believes this decision is in the long term interest of your business.

Sponsorships and grants.

We have continued to support local clubs and organisations. The following projects were supported through either grants or sponsorship.

The Charlton Bowling Club	$5,000	
The Charlton Golf Club.	$10,000	
The Golden Grains Museum	$3,500	
Wycheproof Pre School Centre	$20,000	
Boort Lakeside Croquet Club	$10,000	
Charlton Neighbourhood House	$20,000	(Challenge Grant)
Charlton A & P Society	$11,500	
Boort Bowls Club	$2,000	
Birchip Golf Club	$6,000	
Total	**$88,000**	

What a fantastic figure

All shareholders and Community Bank clients should take a great deal of pride in being part of the process that enabled such a figure to be contributed to our wider community.

In addition to the above figure, we also continued to support a range of groups through our annual sponsorship programs.

Finally but by no means last, I wish to thank all Board members for their respective contribution and efforts over the past year. Those thanks extend to all partners (especially mine) for their support and encouragement. Board members are not paid and a significant amount of time, effort and personal sacrifice is involved in making sure that shareholder funds are not only looked after but are managed well.

Jon Whykes,
Chairman (NCFS Ltd)

Manager’s report

For year ending 30 June 2020

2020, will be the year that goes down in history, for (more than likely) all the wrong reasons, with natural disasters and more recently the COVID-19 pandemic that has changed life as we knew it, for everyone. But with change comes opportunity, and now is the time to embrace the change and capture those opportunities, continue to do what we do best, be there for our customers.

Despite the struggling economy and significant fiscal spending, interest rates have continued to drop, now siting at all time lows. Despite it being the worst-case scenario for our deposit and investment clients, we have still managed to grow our deposit book over the 2019/20 financial year. Thankfully having a wide range of products at our fingertips to assist with our customers investment needs, has assisted in meeting our deposit growth targets. The lending side of the business hasn’t been so receptive, with 2018 being a horrible agricultural season. The flow on effects of that continue into our community until the parched trading accounts of our farmers and flow on businesses (our community) were replenished by the strong 2019 grain harvest.

Despite the local harvest being strong, it takes three to six months before the money is in the bank, the community and our customers then start to feel the confidence to then start looking to expand and develop their own business. Unfortunately, during that three to six month period, COVID-19 become a household word. With this, the dangers of the COVID-19 global pandemic also became understood and resulted in the state and federal government implementing heavy movement and congregation restrictions. Which (understandably) has had significant effects on both our consumer and business customer confidence, trading and income.

As a bank, we were on the front line of the hurt and pain that was and still is being experienced, with many customers deferring their home and businesses loan repayments, due to loss of work, income and employment as result of the global pandemic.

With this (naturally) comes the overall effect on our business and our book. Currently our book sits at $104.5 million, taking a significant hit of $18.4 million from our ‘other business’ over the 2018/19 financial year, lending also declined by $1.5 million. Despite these declines, it is terrific that the wider community choose us as their bank of choice to assist with their investment and wealth growth needs during such times, with growth of $2.77 million.

Our three agencies located in Boort, Wycheproof and Birchip continue to support our customers everyday banking and have remained (for the most part) fully operational over the COVID-19 restriction period. We continue to work with and review our agencies and how we work together as a team, ensuring that our customers are continuing to get the best possible service and that our agencies are forthcoming in accepting new customers.

It’s a continual point of difference that existing and especially our new to bank customers complement us on. Human interaction – “it’s so nice to sit down with someone, face-to-face and have a chat about our lending and banking requirements”. It is with no doubt that the country customers, are still very appreciative of those longstanding traits of ‘a good handshake and a face-to-face conversation’. This is something that other financial institutions are moving away from, which is resulting in an increase of ‘new to bank’ customers and re-finance applications.

We continue to assist 2,000 account holders, that are located across Charlton, Boort, Birchip, Wycheproof and everywhere in between. The Community Bank model continues to pay dividends, with almost $100,000 reinvested back into our community in 2020, through either the community grants program or sponsorship. Sadly, we haven’t (yet, due to state government restrictions) been able to meet with the nine recipients of the community grants program, but it is such a pleasure to know, that the Community Bank model is working at such a successful level.

Our staff continue to offer terrific customer service and build the connections throughout the community. It is these relationships that have been created with our existing customers and are instantly created with our new to bank customers, that proves we're different from other financial institutions, that makes us the bank of choice.

To our team here at the branch, it has been yet another profitable year, made possible due to your endless hard work, terrific customer service and of course your product knowledge. You really do make banking simple for our customers and continue to provide terrific customer service.

It goes without saying, but I would like to thank you all again, it most certainly is challenging and unprecedented times for everyone at the moment. With COVID-19 and state restrictions, it has increased the financial strain on a lot of businesses and households and naturally we as the front line staff are on the other side of the desk or on the end of the phone to our customers who really don't know where to from here. These are tough conversations and tough on your mental health, so I thank you again for handling these situations so professionally.

To the Board, I continue to be impressed with not only your commitment as volunteers, but the business that you run. I admire your courage and future vision. Being aware that times are changing, and that we too need to change and adapt, to stay relevant and continue to remain at the forefront of those new opportunities. It is no wonder your business continues to remain so viable and stable.

On a finishing note, I again want to congratulate the Board and the staff to (the daily) running / direction of the business. I believe I speak on behalf of the wider community, when I say that without all of you, that it would not have been possible for our local community to have an additional $1.491 million reinvested back into it over the past 17 years. I look forward to the coming 12 months, as we look to grow, develop and adapt to the forever changing future of the financial industry.

As always, the staff and I look forward to assisting you with all your financial needs long into the future.

Glenden Watts
Manager

Directors' report

The directors present the 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:

Jon William Whykes
Non-executive director
Occupation: Primary production
Qualifications, experience and expertise: Life member of Charlton Apex Club, Current member and Catering director of OASIS Service Club and current Secretary and Treasurer of Wooroonook CFA.
Special responsibilities: Chairman, Human Resources, Audit Committee and Future directions group
Interest in shares: 1,500 ordinary shares

Matthew Simon Peck
Non-executive director
Occupation: School Teacher
Special responsibilities: Audit Committee and Finance Committee
Interest in shares: 3,201 ordinary shares

Alan Ronald Getley
Non-executive director
Occupation: Estate Agent
Qualifications, experience and expertise: Chair at Charlton Forum. Tres Charlton Chamber of Commerce & industry. Past President Buloke Tourism Board (3 years). Past President Charlton College (7 years). Past V.P. Charlton College (1 year).
Special responsibilities: Marketing Committee
Interest in shares: 4,500 ordinary shares

Matthew William McGurk
Non-executive director
Occupation: Farmer
Qualifications, experience and expertise: Agronomist.
Special responsibilities: Nil
Interest in shares: nil share interest held

Neville William Cloak
Non-executive director
Occupation: Café Owner
Qualifications, experience and expertise: Project Implementation Manager - Aus. Post Transport Operations Support Manager.
Special responsibilities: Sponsorship, Policy and Governance Committee
Interest in shares: nil share interest held

Directors *(continued)*

Amy Carissa Nicolson
Non-executive director
Occupation: Administration
Qualifications, experience and expertise: Bachelor of Agribusiness - CSU Wagga Wagga 2003, 10 years full time employment and 6 years part time employment in agriculture administration, marketing and customer relations. Current committee member of Charlton Netball Club, Charlton Agriculture - Pastoral Society - Charlton Park 2020 Project.
Special responsibilities: Marketing and Publicity Committee
Interest in shares: nil share interest held

Elizabeth Anne Riley
Non-executive director (appointed 18 November 2019)
Occupation: Accountant
Qualifications, experience and expertise: Bachelor of Accounting, Treasurer of Charlton and District Preschool, Treasurer Charlton Pony Club, 8 years part time employment at accounting firm.
Special responsibilities: Sponsorship Committee
Interest in shares: nil share interest held

Angela Maree Poxon
Non-executive director (appointed 18 November 2019)
Occupation: Career Practitioner
Qualifications, experience and expertise: Bachelor of Science, Diploma in Education, Graduate Diploma in Adolescent Health and Welfare, Graduate Certification in Career Education. Angela is a Secondary Teacher, Welfare Coordinator Career Practitioner, and President of North Central Hockey Association. Angela is a current and previous Committee Member and executive of numerous Sporting and Community Groups in Boort.
Special responsibilities: Human Resources and Audit.
Interest in shares: nil share interest held

Winifred Maude Scott
Non-executive director (appointed 22 June 2020)
Occupation: Board Director
Qualifications, experience and expertise: Board director, Chair Mallee Regional Partnership, Deputy Chair for the Regional Development Advisory committee, current Member of the Adult Community Further Education Board, Charlton and District Community Bank Board, North Central Local Learning and Employment Network Board and Mildura Writers Festival Committee.
Special responsibilities: Working groups as required
Interest in shares: nil share interest held

Geoffrey Allan Cossar
Non-executive director (resigned 18 November 2019)
Occupation: Business Consultant
Qualifications, experience and expertise: Former bank employee, 7 years at management level. Business consultant since 1994.
Special responsibilities: HR and Audit Committee, Share Buy-back Committee
Interest in shares: nil share interest held

Kim Louise Thompson
Non-executive director (resigned 18 November 2019)
Occupation: Teacher
Qualifications, experience and expertise: Bachelor of Education, 33 years full time employment at Charlton College. Current committee member of Charlton Park 2020.
Special responsibilities: Sponsorship, Policy and Governance Committee
Interest in shares: 1,500 ordinary shares

Directors *(continued)*

Peter Rogan
Non-executive director (resigned 25 November 2019)
Occupation: Farmer
Qualifications, experience and expertise: Past Deputy Chair for six and half years and Past Chairman for three and half years.
Special responsibilities: Human Resources & Marketing Committee
Interest in shares: 1,301 ordinary shares

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 John Harley. John was appointed to the position of secretary on 21 April 2008.

Qualifications, experience and expertise: Charlton College Principal 1996-2008. Previously secretary of numerous sporting clubs. Chairman of Charlton Park 2020 Inc.

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 $
51,564	1,125

Directors' interests

	Fully paid ordinary shares		
	Balance at start of the year	Changes during the year	Balance at end of the year
Jon William Whykes	1,500	-	1,500
Matthew Simon Peck	3,201	-	3,201
Alan Ronald Getley	4,500	-	4,500
Matthew William McGurk	-	-	-
Neville William Cloak	-	-	-
Amy Carissa Nicolson	-	-	-
Elizabeth Anne Riley	-	-	-
Angela Maree Poxon	-	-	-
Winifred Maude Scott	-	-	-
Geoffrey Allan Cossar	-	-	-
Kim Louise Thompson	1,500	-	1,500
Peter Rogan	1,301	-	1,301

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

Dividends

During the financial year, the following dividends were provided for and paid. The dividends have been provided for in the financial statements.

	Cents per share	Total amount
Final fully franked dividend	3.00	12,224
Total amount	3.00	12,224

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

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

Likely developments

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

Environmental regulation

The company is not subject to any significant environmental regulation.

Directors' benefits

No director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a director, a firm which a director is a member or an entity in which a director has a substantial financial interest except as disclosed in note 28 to the financial statements. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the company's accounts, or the fixed salary of a full-time employee of the company, controlled entity or related body corporate.

Indemnification and insurance of directors and officers

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

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

Directors' meetings

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

	Board Meetings Attended	
	E	*A*
Jon William Whykes	12	12
Matthew Simon Peck	12	11
Alan Ronald Getley	12	12
Matthew William McGurk	12	9
Neville William Cloak	12	11
Amy Carissa Nicolson	12	11
Elizabeth Anne Riley	9	8
Angela Maree Poxon	8	7
Winifred Maude Scott	1	1
Geoffrey Allan Cossar	4	3
Kim Louise Thompson	4	4
Peter Rogan	5	4

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 Note 27

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 12.

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

Jon William Whykes, Chairman

Dated this 3rd day of September 2020

Auditor's independence declaration

Partners in success

Chartered Accountants

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

Lead auditor's independence declaration under section 307C of the *Corporations Act 2001* to the directors of North Central Financial Services Limited

As lead auditor for the audit of North Central Financial Services Limited for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

i) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550
Dated: 3 September 2020

Joshua Griffin
Lead Auditor

Financial statements

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 June 2020

	Notes	2020 $	2019 $
Revenue from contracts with customers	8	694,367	725,580
Other revenue	9	56,572	25,000
Finance income	10	4,206	8,331
Employee benefit expenses	11c)	(331,674)	(311,725)
Charitable donations, sponsorship, advertising and promotion		(118,643)	(192,804)
Occupancy and associated costs		(16,223)	(33,897)
Systems costs		(17,230)	(18,590)
Depreciation and amortisation expense	11a)	(27,937)	(19,142)
Finance costs	11b)	(12,444)	-
General administration expenses		(168,571)	(180,750)
Profit before income tax expense		62,423	2,003
Income tax expense	12a)	(10,859)	(878)
Profit after income tax expense		51,564	1,125
Total comprehensive income for the year attributable to the ordinary shareholders of the company:		51,564	1,125
Earnings per share		¢	¢
- Basic and diluted earnings per share:	30a)	12.66	0.28

The accompanying notes form part of these financial statements

Statement of Financial Position

as at 30 June 2020

	Notes	2020 $	2019 $
ASSETS			
Current assets			
Cash and cash equivalents	13a)	393,221	380,669
Trade and other receivables	14a)	79,995	58,379
Total current assets		473,216	439,048
Non-current assets			
Property, plant and equipment	15a)	15,709	19,642
Right-of-use assets	16a)	131,988	-
Intangible assets	17a)	43,605	56,837
Deferred tax asset	18b)	36,603	9,660
Total non-current assets		227,905	86,139
Total assets		701,121	525,187
LIABILITIES			
Current liabilities			
Trade and other payables	19a)	26,325	27,117
Current tax liabilities	18a)	896	5,858
Lease liabilities	20b)	7,992	-
Employee benefits	22a)	31,335	39,176
Total current liabilities		66,548	72,151
Non-current liabilities			
Trade and other payables	19b)	31,025	46,537
Lease liabilities	20c)	237,505	-
Employee benefits	22b)	1,368	1,001
Provisions	21a)	7,961	-
Total non-current liabilities		277,859	47,538
Total liabilities		344,407	119,689
Net assets		356,714	405,498
EQUITY			
Issued capital	23a)	384,288	384,288
Retained earnings/(accumulated losses)	24	(27,574)	21,210
Total equity		356,714	405,498

The accompanying notes form part of these financial statements

Statement of Changes in Equity

for the year ended 30 June 2020

	Notes	Issued capital $	Retained earnings / (accumulated losses) $	Total equity $
Balance at 1 July 2018		384,288	32,309	416,597
Total comprehensive income for the year		-	1,125	1,125
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	29a)	-	(12,224)	(12,224)
Balance at 30 June 2019		**384,288**	**21,210**	**405,498**
Balance at 1 July 2019		384,288	21,210	405,498
Effect of AASB 16: Leases	3d)	-	(88,124)	(88,124)
Restated balance at 1 July 2019		384,288	(66,914)	317,374
Total comprehensive income for the year		-	51,564	51,564
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	29a)	-	(12,224)	(12,224)
Balance at 30 June 2020		**384,288**	**(27,574)**	**356,714**

The accompanying notes form part of these financial statements

Statement of Cash Flows
for the year ended 30 June 2020

	Notes	2020 $	2019 $
Cash flows from operating activities			
Receipts from customers		825,048	825,581
Payments to suppliers and employees		(755,161)	(795,875)
Interest received		5,579	8,365
Lease payments (interest component)	11b)	(12,072)	-
Lease payments not included in the measurement of lease liabilities	11d)	(5,697)	-
Income taxes paid		(9,338)	(12,512)
Net cash provided by operating activities	25	**48,359**	**25,559**
Cash flows from investing activities			
Payments for property, plant and equipment		(811)	(2,182)
Proceeds from sale of property, plant and equipment		-	7,728
Payments for intangible assets		(14,100)	(14,102)
Net cash used in investing activities		**(14,911)**	**(8,556)**
Cash flows from financing activities			
Lease payments (principal component)	20a)	(8,672)	-
Dividends paid	29a)	(12,224)	(12,224)
Net cash used in financing activities		**(20,896)**	**(12,224)**
Net cash increase in cash held		**12,552**	**4,779**
Cash and cash equivalents at the beginning of the financial year		380,669	375,890
Cash and cash equivalents at the end of the financial year	13a)	**393,221**	**380,669**

The accompanying notes form part of these financial statements

Notes to the financial statements

For year ended 30 June 2020

Note 1 Reporting entity

This is the financial report for North Central 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
39-41 High Street Charlton VIC 3525	39-41 High Street Charlton VIC 3525

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 3 September 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 4.

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.

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

b) As a lessee

As a lessee, the company leases many assets including property, 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).

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 that the company:

- 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 equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term on contracts that have options to extend or terminate.

c) As a lessor

The company is not a party in 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.

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

d) Impact on financial statements

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

Impact on equity presented as decrease	Note	1 July 2019 $
Asset		
Right-of-use assets - land and buildings	16b)	141,949
Deferred tax asset	18b)	33,426
Liability		
Lease liabilities	20a)	(255,910)
Provision for make-good	21b)	(7,589)
Equity		
Retained earnings/(accumulated losses)		(88,124)

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	87,911
Add: additional options now expected to be exercised	202,874
Add: variable market review / index based increase	78,912
Less: AASB 117 lease commitments reconciliation	(7,589)
Less: present value discounting	(106,198)
Lease liability as at 1 July 2019	255,910

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:

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

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

Revenue calculation

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

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

Margin

Margin is arrived at through the following calculation:

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

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

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

a) Revenue from contracts with customers *(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.

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

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 goods and services are provided.

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

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

b) Other revenue *(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.

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

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

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

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

d) Employee benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for salary and wages (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.

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

e) Taxes

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

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.

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

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

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

Goods and Services Tax

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

- when the amount of GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the revenue or expense item.
- 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.

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

f) Cash and cash equivalents

For the purposes of the statement of financial position and statement of cash flows, cash and cash equivalents comprise: cash on hand, 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.

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:

Asset class	Method	Useful life
Plant and equipment	Straight-line	1 to 40 years

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

h) Intangible assets

Intangible assets of the company 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.

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

h) Intangible assets *(continued)*

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:

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

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

i) Financial instruments

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

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

Acronym	Meaning
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.

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

i) Financial instruments *(continued)*

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.

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.

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

i) Financial instruments *(continued)*

Derecognition (continued)

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 its trade receivables.

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.

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 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 company's trade receivables are limited to the monthly profit share distribution from Bendigo Bank, which is received 14 days post month end. Due to the reliance on Bendigo Bank the company has reviewed credit ratings provided by Standard & Poors, Moody's and Fitch Ratings to determine the level of credit exposure to the company. The company also performed a historical assessment of receivables from Bendigo Bank and found no instances of default. As a result no impairment loss allowance has been made in relation to trade receivables as at 30 June 2020.

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.

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

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 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.

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.

<u>As a lessee</u>

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.

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

m) Leases *(continued)*

Policy applicable from 1 July 2019 (continued)

As a lessee *(continued)*

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.

Short-term leases and leases of low-value assets

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

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

As a lessor

The company is not a party in an arrangement where it is a lessor.

Policy applicable before 1 July 2019

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

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

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

m) Leases *(continued)*

Policy applicable before 1 July 2019 (continued)

As a lessee

In the comparative period, as a lessee the company classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

As a lessor

The company has not been a party in an arrangement where it is a lessor.

n) Standards issued but not yet effective

A number of new standards are effective for annual reporting periods beginning after 1 January 2019, however the changes are not expected to have a significant impact on the company's financial statements.

Note 5 Significant accounting judgements, estimates, and assumptions

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

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

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:

Note	Judgement
- 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: - the amount; - the lease term; - economic environment; and - other relevant factors.

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

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:

Note	Assumptions
- Note 8 - revenue recognition	estimate of expected returns;
- 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 15 - estimation of useful lives of assets	key assumptions on historical experience and the condition of the asset;
- Note 22 - long service leave provision	key assumptions on attrition rate and pay increases though promotion and inflation;
- Note 21 - make-good provision	key assumptions on future cost estimates in restoring the leased premises in accordance with the lease agreement;

Note 6 Financial risk management

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

- credit risk;
- liquidity risk; and
- market risk (including 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.

Note 6 Financial risk management *(continued)*

b) Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting the obligations associated with its financial liabilities 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

		Contractual cash flows		
Non-derivative financial liability	Carrying amount	Not later than 12 months	Between 12 months and five years	Greater than five years
Lease liabilities	245,497	19,626	92,070	227,927
Trade payables	2,362	2,362	-	-
	247,859	21,988	92,070	227,927

30 June 2019

		Contractual cash flows		
Non-derivative financial liability	Carrying amount	Not later than 12 months	Between 12 months and five years	Greater than five years
Trade payables	3,056	3,056	-	-
	3,056	3,056	-	-

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 or at fair value. The company is not exposed to commodity price risk.

Cash flow and fair value interest rate risk

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

The company held cash and cash equivalents of $393,221 at 30 June 2020 (2019: $380,669). The cash and cash equivalents are held with BEN, 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.

Note 8 Revenue from contracts with customers

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

Revenue from contracts with customers	2020 $	2019 $
Revenue:		
- Revenue from contracts with customers	694,367	725,580
	694,367	725,580

Disaggregation of revenue from contracts with customers

At a point in time:		
- Margin income	501,372	564,121
- Fee income	40,441	43,361
- Commission income	152,554	118,098
	694,367	725,580

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

Note 9 Other revenue

The company generates other sources of revenue from discretionary contributions received from the franchisor and the cash flow boost from Australian Government.

Other revenue	2020 $	2019 $
Revenue:		
- Market development fund income	25,000	25,000
- Cash flow boost	31,572	-
	56,572	25,000

Note 10 Finance income

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

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

Finance income	2020 $	2019 $
At amortised cost:		
- Term deposits	4,206	8,331
	4,206	8,331

Note 11 Expenses

a) Depreciation and amortisation expense	2020 $	2019 $
Depreciation of non-current assets:		
- Plant and equipment	4,744	5,019
- Motor vehicles	-	783
	4,744	5,802
Depreciation of right-of-use assets		
- Leased land and buildings	9,961	-
	9,961	-
Amortisation of intangible assets:		
- Franchise fee	2,215	5,612
- Franchise renewal process fee	11,017	7,728
	13,232	13,340
Total depreciation and amortisation expense	27,937	19,142

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

b) Finance costs	Note	2020 $	2019 $
Finance costs:			
- Lease interest expense	20a)	12,072	-
- Unwinding of make-good provision		372	-
		12,444	-

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

Note 11 Expenses *(continued)*

c) Employee benefit expenses

	2020 $	2019 $
Wages and salaries	288,044	268,516
Non-cash benefits	-	1,407
Contributions to defined contribution plans	27,100	24,278
Expenses related to long service leave	390	-
Other expenses	16,140	17,524
	331,674	311,725

d) Recognition exemption

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

	2020 $	2019 $
Expenses relating to low-value leases	5,697	-
	5,697	-

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 $
Current tax expense/(credit)		
- Current tax	4,376	6,808
- Movement in deferred tax	(29,055)	(5,930)
- Adjustment to deferred tax on AASB 16 retrospective application	33,426	-
- Reduction in company tax rate	2,112	-
	10,859	878

Progressive changes to the company tax rate have been enacted. Consequently, as of 1 July 2020, the company tax rate will be reduced from 27.5% to 26%. This change resulted in a loss of $2,112 related to the remeasurement of deferred tax assets and liabilities of the company.

Note 12 Income tax expense *(continued)*

b) *Prima facie* income tax reconciliation

	2020 $	2019 $
Operating profit before taxation	62,423	2,003
Prima facie tax on profit from ordinary activities at 27.5% (2019: 27.5%)	17,166	551
Tax effect of:		
- Non-deductible expenses	265	7,258
- Temporary differences	(4,373)	(1,001)
- Other assessable income	(8,682)	-
- Movement in deferred tax	(29,055)	(5,930)
- Reduction in company tax rate	2,112	-
- Leases initial recognition	33,426	-
	10,859	878

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	393,221	380,669
	393,221	380,669

Note 14 Trade and other receivables

a) Current assets	2020 $	2019 $
Trade receivables	47,027	51,046
Prepayments	4,891	5,276
Other receivables and accruals	28,077	2,057
	79,995	58,379

Note 15 Property, plant and equipment

a) Carrying amounts	2020 $	2019 $
Plant and equipment		
At cost	94,351	93,540
Less: accumulated depreciation	(78,642)	(73,898)
	15,709	19,642
Total written down amount	15,709	19,642

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.

Note 15 Property, plant and equipment *(continued)*

b) Reconciliation of carrying amounts

	2020 $	2019 $
Plant and equipment		
Carrying amount at beginning	19,642	22,479
Additions	811	2,182
Depreciation	(4,744)	(5,019)
Carrying amount at end	15,709	19,642
Motor vehicles		
Carrying amount at beginning	-	33,714
Disposals	-	(32,931)
Depreciation	-	(783)
Carrying amount at end	-	-
Total written down amount	15,709	19,642

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.

a) Carrying amounts

	Note	2020 $	2019 $
Leased land and buildings			
At cost		298,840	-
Less: accumulated depreciation		(166,852)	-
		131,988	-

b) Reconciliation of carrying amounts

	Note	2020 $	2019 $
Leased land and buildings			
Carrying amount at beginning		-	-
Initial recognition on transition	3d)	298,930	-
Accumulated depreciation on adoption	3d)	(156,981)	-
Depreciation		(9,961)	-
Carrying amount at end		131,988	-

Note 17 Intangible assets

a) Carrying amounts

	2020 $	2019 $
Franchise fee		
At cost	79,731	79,731
Less: accumulated amortisation	(72,474)	(70,259)
	7,257	9,472
Franchise renewal process fee		
At cost	55,093	55,093
Less: accumulated amortisation	(18,745)	(7,728)
	36,348	47,365
Total written down amount	43,605	56,837

b) Reconciliation of carrying amounts

Franchise fee		
Carrying amount at beginning	9,472	4,066
Additions	-	11,018
Amortisation	(2,215)	(5,612)
Carrying amount at end	7,257	9,472
Franchise renewal process fee		
Carrying amount at beginning	47,365	-
Additions	-	55,093
Amortisation	(11,017)	(7,728)
Carrying amount at end	36,348	47,365
Total written down amount	43,605	56,837

c) Changes in estimates

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

Note 18 Tax assets and liabilities

a) Current tax

	2020 $	2019 $
Income tax payable	896	5,858

Note 18 Tax assets and liabilities *(continued)*

b) Deferred tax

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

	30 June 2019	Recognised in profit or loss	Recognised in equity	30 June 2020
Deferred tax assets	$	$	$	$
- expense accruals	798	(18)	-	780
- employee provisions	11,049	(2,546)	-	8,503
- make-good provision	-	(17)	2,087	2,070
- lease liability	-	(6,546)	70,375	63,829
Total deferred tax assets	11,847	(9,127)	72,462	75,182
Deferred tax liabilities				
- income accruals	566	(388)	-	178
- property, plant and equipment	1,621	2,463	-	4,084
- right-of-use assets	-	(4,719)	39,036	34,317
Total deferred tax liabilities	2,187	(2,644)	39,036	38,579
Net deferred tax assets (liabilities)	9,660	(6,483)	33,426	36,603

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

	30 June 2018	Recognised in profit or loss	Recognised in equity	30 June 2019
Deferred tax assets	$	$	$	$
- expense accruals	770	28	-	798
- employee provisions	10,550	499	-	11,049
Total deferred tax assets	11,320	527	-	11,847
Deferred tax liabilities				
- income accruals	576	(10)	-	566
- property, plant and equipment	7,014	(5,393)	-	1,621
Total deferred tax liabilities	7,590	(5,403)	-	2,187
Net deferred tax assets (liabilities)	3,730	5,930	-	9,660

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	2,362	3,056
Other creditors and accruals	23,963	24,061
	26,325	27,117

b) Non-current liabilities

Other creditors and accruals	31,025	46,537
	31,025	46,537

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:

- Charlton Branch — The lease agreement is a non-cancellable lease with an initial term of ten years which commenced in October 2003. An extension option term of ten years was exercised in 2013. The lease has one further ten year extension option available.

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.

Note 20 Lease liabilities *(continued)*

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.

Lease liabilities on transition	Note	2020 $	2019 $
Balance at the beginning (finance lease liabilities)		-	-
Initial recognition on AASB 16 transition	3d)	255,910	-
Remeasurement adjustments		(1,741)	-
Lease payments - interest		12,072	-
Lease payments		(20,744)	-
		245,497	-

b) Current lease liabilities

Property lease liabilities		19,626	-
Unexpired interest		(11,634)	-
		7,992	-

c) Non-current lease liabilities

Property lease liabilities		319,997	-
Unexpired interest		(82,492)	-
		237,505	-

d) Maturity analysis

- Not later than 12 months		19,626	-
- Between 12 months and 5 years		92,070	-
- Greater than 5 years		227,927	-
Total undiscounted lease payments		339,623	-
Unexpired interest		(94,126)	-
Present value of lease liabilities		245,497	-

Note 20 Lease liabilities *(continued)*

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 increase in profit after tax of $1,205.

Profit or loss - increase (decrease) in expenses	AASB 117 expense not recognised	Impact on current reporting period	AASB 16 expense now recognised
- Occupancy and associated costs	20,744	(20,744)	-
- Depreciation and amortisation expense	-	9,961	9,961
- Finance costs	-	12,444	12,444
Increase in expenses - before tax	20,744	1,661	22,405
- Income tax expense / (credit) - current	(5,705)	5,705	-
- Income tax expense / (credit) - deferred	-	(6,161)	(6,161)
Increase in expenses - after tax	15,039	1,205	16,244

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	7,961	-
	7,961	-

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 as well as cost to remedy any damages caused during the removal process.

Provision	Note	2020 $	2019 $
Balance at the beginning		-	-
Face-value of make-good costs recognised	3d)	15,000	-
Present value discounting	3d)	(7,411)	-
Present value unwinding		372	-
		7,961	-

Note 21 Provisions *(continued)*

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.

The lease is due to expire on 30 September 2033 at which time it is expected the face-value costs to restore the premises will fall

The financial effect of the reassessment, assuming no changes in the above judgements and estimates, on actual and expected finance costs and provisions was as follows:

Profit or loss	2020	2021	2022	2023	2024+
Expense:					
- Finance costs	372	390	409	429	5,811
Statement of financial position					
Liability:					
- Make-good provision	7,961	8,351	8,760	9,189	15,000

Note 22 Employee benefits

a) Current liabilities	2020 $	2019 $
Provision for annual leave	17,070	13,821
Provision for long service leave	14,265	25,355
	31,335	39,176

b) Non-current liabilities		
Provision for long service leave	1,368	1,001
	1,368	1,001

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

a) Issued capital	2020		2019	
	Number	$	Number	$
Ordinary shares - fully paid	407,458	407,458	407,458	407,458
Less: equity raising costs	-	(23,170)		(23,170)
	407,458	384,288	407,458	384,288

Note 23 Issued capital *(continued)*

b) Rights attached to issued capital

Ordinary shares

Voting rights

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

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

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

Dividends

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

Transfer

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

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

Prohibited shareholding interest

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

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

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

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.

Note 23 Issued capital *(continued)*

b) Rights attached to issued capital *(continued)*

Prohibited shareholdings (continued)

Transfer *(continued)*

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 Retained earnings (accumulated losses)

	Note	2020 $	2019 $
Balance at beginning of reporting period		21,210	32,309
Adjustment for transition to AASB 16	3d)	(88,124)	-
Net profit after tax from ordinary activities		51,564	1,125
Dividends provided for or paid	29a)	(12,224)	(12,224)
Balance at end of reporting period		(27,574)	21,210

Note 25 Reconciliation of cash flows from operating activities

	2020 $	2019 $
Net profit after tax from ordinary activities	51,564	1,125
Adjustments for:		
- Depreciation	14,705	5,802
- Amortisation	13,232	13,340
- (Profit)/loss on disposal of non-current assets	-	25,203
Changes in assets and liabilities:		
- (Increase)/decrease in trade and other receivables	(23,356)	(1,345)
- (Increase)/decrease in other assets	6,483	(57,940)
- Increase/(decrease) in trade and other payables	(2,204)	43,264
- Increase/(decrease) in employee benefits	(7,474)	-
- Increase/(decrease) in provisions	371	1,814
- Increase/(decrease) in tax liabilities	(4,962)	(5,704)
Net cash flows provided by operating activities	48,359	25,559

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	14a)	75,104	53,103
Cash and cash equivalents	13a)	393,221	380,669
		468,325	433,772
Financial liabilities			
Trade and other payables	19a)	2,362	3,056
Lease liabilities	20a)	245,497	-
		247,859	3,056

Note 27 Auditor's remuneration

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

	2020 $	2019 $
Audit and review services		
- Audit and review of financial statements	4,800	4,600
	4,800	4,600
Non audit services		
- Taxation advice and tax compliance services	1,000	1,595
- General advisory services	2,590	2,330
	3,590	3,925
Total auditor's remuneration	8,390	8,525

Note 28 Related parties

a) Details of key management personnel

The directors of the company during the financial year were:

Jon William Whykes
Matthew Simon Peck
Alan Ronald Getley
Matthew William McGurk
Neville William Cloak
Amy Carissa Nicolson
Elizabeth Anne Riley
Angela Maree Poxon
Winifred Maude Scott
Geoffrey Allan Cossar
Kim Louise Thompson
Peter Rogan

Note 28 Related parties *(continued)*

b) Key management personnel compensation

No director of the company receives remuneration for services as a company director or committee member.

There are no executives within the company whose remuneration is required to be disclosed.

c) Related party transactions

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

Transactions with related parties	2020 $	2019 $
- Neville Cloak provided Catering during the period for a total of:	88	113
Total transactions with related parties	88	113

Community /bank Directors' Privileges Package

The board has adopted the Community Bank Directors' Privileges Package. The package is available to all directors, who can elect to avail themselves of the benefits based on their personal banking with the Community Bank. There is no requirement to own Bendigo Bank shares and there is no qualification period to qualify to utilise the benefits. The package mirrors the benefits currently available to Bendigo Bank shareholders. The total benefits received by the directors from the Directors' Privilege Package are Nil for the year ended 30 June 2020 (2019: Nil)

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 cash flows and statement of changes in equity.

	30 June 2020		30 June 2019	
	Cents	$	Cents	$
Fully franked dividend	3.00	12,224	3.00	12,224
Total dividends paid during the financial year	3.00	12,224	3.00	12,224

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

b) Franking account balance

	2020 $	2019 $
Franking credits available for subsequent reporting periods		
Franking account balance at the beginning of the financial year	97,308	89,433
Franking transactions during the financial year:		
- Franking credits (debits) arising from income taxes paid (refunded)	9,338	12,512
- Franking debits from the payment of franked distributions	(4,637)	(4,637)
Franking account balance at the end of the financial year	102,009	97,308
Franking transactions that will arise subsequent to the financial year end:		
- Franking credits (debits) that will arise from payment (refund) of income tax	896	5,858
Franking credits available for future reporting periods	102,905	103,166

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

Note 30 Earnings per share

a) Basic and diluted earnings per share

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

	2020 $	2019 $
Profit attributable to ordinary shareholders	51,564	1,125
	Number	Number
Weighted-average number of ordinary shares	407,458	407,458
	Cents	Cents
Basic and diluted earnings per share	12.66	0.28

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	-	20,287
- between 12 months and 5 years	-	67,624
Minimum lease payments payable	-	87,911

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

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

Directors' declaration

In accordance with a resolution of the directors of North Central Financial Services Limited, we state that:

In the opinion of the directors:

(a) the financial statements and notes of the company are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the company's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and

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

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

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

Jon William Whykes, Chairman

Dated this 3rd day of September 2020

Independent audit report

AFS
Partners in success
Chartered Accountants

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Independent auditor's report to the members of North Central Financial Services Limited

Report on the audit of the financial report

Our opinion
In our opinion, the accompanying financial report of North Central Financial Services Limited, is in accordance with the *Corporations Act 2001*, including:

i. giving a true and fair view of the company's financial position as at 30 June 2020 and of its financial performance for the year ended; and
ii. complying with Australian Accounting Standards and the Corporations Regulations 2001.

What we have audited
North Central Financial Services Limited's (the company) financial report comprises the:

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

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

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We are independent of the company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APE*S 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.

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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: 3 September 2020

Joshua Griffin
Lead Auditor

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Bendigo Bank

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