Penola & District Financial Services Limited

ABN: 76 165 281 854

Financial Report

For the year ended

30 June 2020

Penola & District Financial Services Limited
Directors' Report

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

Directors

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

Mark Edwards
Chair
Occupation: Retired
Qualifications, experience and expertise: Wide ranging Banking and Credit Cooperative experience over 40+ years. Former Independent Chair of Coonawarra Grape and Wine Inc. Former Director and Treasurer of Regional Development Australia Limestone Coast. Current President of Penola Racing Club Inc.
Special responsibilities: Human Resources Committee and former member of Community Engagement Committee
Interest in shares: 10,501 ordinary shares

Shane McPherson
Non-executive director
Occupation: Retailer
Qualifications, experience and expertise: Shane spent 10 years as a Butcher and Meat Wholesaler and the last 30 years as owner operator of Penola IGA Supermarket. He is currently an elected member of the State IGA Committee. A member of the Lions Club of Penola, member of the Penola Business Association, member of the Penola Golf Club and past Chairman of Mary MacKillop Memorial School Board.
Special responsibilities: Community Engagement Committee and Property Committee
Interest in shares: 4,001 ordinary shares

Kirsty Anne Balnaves
Non-executive director
Occupation: Self Employed
Qualifications, experience and expertise: Kirsty was born in Penola, after finishing her education she spent time in Broken Hill and then in Tasmania at Cradle Mountain. Returning to Adelaide, Kirsty attended university where she studied marketing and management. In 1990, Kirsty joined the family company and is currently responsible for the administration and financial aspects of: vineyard management and contracting, winery contracting and making and selling Balnaves wines. Kirsty is a current member of the South Australian Wine Industry Association Executive Committee, board member of the Penola and District Community Bank - Bendigo Bank and volunteer for Meals on Wheels. Kirsty was a member of the Coonawarra Vigneron's Association Executive for 15 years, including a period as Vice President, past member of the Lower South East Water Resources Committee, past committee member of the Penola and District Little Athletics and Penola Netball Club, and Penola and District Medical Support Group.
Special responsibilities: Community Investment Committee
Interest in shares: 42,001 ordinary shares

Jennifer Margaret Smibert
Non-executive director
Occupation: Retired/Family Business Involvement
Qualifications, experience and expertise: Volunteer community work has included being a member of local boards/committees/community groups, involved in education, disability, health, rural issues, arts and tourism. Dip. T. ECE - Early Childhood Education (Registered Teacher).
Special responsibilities: Human Resources Committee
Interest in shares: 36,251 ordinary shares

Directors *(continued)*

Rhett David McDonald
Non-executive director
Occupation: Counsellor/Advocate
Qualifications, experience and expertise: Therapeutic Counsellor/Advocate working with families, young people, refugee, asylum seekers and migrant communities in the Limestone Coast. Experience working in the international and humanitarian sector with a number of years spent on assignments in the field of child health, training and development, safety and security. Local community involvement over the years, awarded Penola Riddoch Ward Australia Day Citizen of the year for conribution to the community.
Special responsibilities: Community Investment Committee and Human Resources Committee
Interest in shares: 1,000 ordinary shares

Timothy Daniel Finch
Non-executive director (resigned 26 June 2020)
Occupation: Self Employed - TK Furniture
Qualifications, experience and expertise: Tim holds a Certificate III in furnishing, was a cabinet making apprentice (2002-2005), a Factory Manager at Scott's Custom Furniture Adelaide (2005-2009). Tim is currently Owner and Manager of TK Furniture Penola and has been since 2010. Tim was involved with Mckay Children's Centre Governing Council from 2013-2016.
Special responsibilities: Finance, Governance and Audit Committee
Interest in shares: nil share interest held

Tara Margaret Williams Batt
Non-executive director (appointed 29 August 2019)
Occupation: Business Management
Qualifications, experience and expertise: Tara is presently employed as the Assistant Treasurer and Secretary of Penola and District Financial Services Ltd, Company Secretary of Williams Stores Pty Ltd, runs her own business "Shatarhen Park Equestrian Centre", jointly manages their sheep and cattle property, mother of two and Cheif Instructor at Penola Pony Club. Tara holds a Bachelor of Business (Agricultural Management). Previously, Tara has been employed by ANZ holding positions of Agribusiness Assistant Manager and Penola Branch Manager as well as being involved in the Penola Hunt Club, Mid South East Dressage Club and Penola Show Society.
Special responsibilities: Company Secretary, Assistant Treasurer, Finance & Governance Committee
Interest in shares: nil share interest held

Sophie Jane Angus
Non-executive director (appointed 29 August 2019)
Occupation: Business Consultant
Qualifications, experience and expertise: Sophie has a Commerce Degree majoring in accounting and an Honours Degree in law. After starting her career as an accountant in the superannuation industry, she took a position as a lawyer at Piper Alderman as their specialist in superannuaiton and investment law in Adelaide, Melbounre and Sydney. Sophie was then appointed as Senior Legal Counsel at the Commonwealth Bank of Australia in Sydney, working through the global financial crisis in the Colonial First State wealth management business and was appointed to assist advise the Federal Government in the Cooper Review into the superannuation industry. She now owns and operates small business in the healthcare sector.
Special responsibilities: Treasurer, Finance & Governance Committee
Interest in shares: nil share interest held

Michael John Palm
Non-executive director (appointed 26 June 2020)
Occupation: Farming
Qualifications, experience and expertise:
Special responsibilities: Nil
Interest in shares: 81,001 ordinary shares

Directors *(continued)*

Allison Marie James-Martin
Non-executive director (resigned 21 February 2020)
Occupation: Agronomist
Qualifications, experience and expertise: Bachelor Ag Science. Currently an account manager in Agronomy at Landmark. 2000 - 2005 was a Territory Sales Manager for Syngenta Crop Protection. Prior to 2000 was an account manager in Agronomy at Landmark.
Special responsibilities: Human Resources Committee
Interest in shares: nil share interest held

Peter Hans-Erich Muller
Non-executive director (resigned 14 November 2019)
Occupation: Retired
Qualifications, experience and expertise: Principal of Penola High School for 20 years, a Wattle Range Councillor for 4 years, Chairman of Penola War Memorial Hospital for 7 years, Chairman of Penola Coonawarra Arts Festival for 9 years and a member of Penola Lions for 27 years. Peter holds Bachelor of Arts and Bachelor of Education degrees and is a life member of the Australian College of Educators. He has held numerous teaching and administrative positions during his 35 year career with the SA Education Department. He has been a resident of Penola for 37 years and in retirement manages the family's small vineyard. Peter received Penola's Australia Day Citizen Award in 2006 and was awarded a Melvin Jones Fellowship by his Lions Club in 2010.
Special responsibilities:
Interest in shares: 3,001 ordinary shares

Company Secretary

There have been two company secretaries holding the position during the financial year:

- Tara Margaret Batt was appointed company secretary on 14 November 2019.
- Peter Muller was appointed company secretary on 13 August 2013 and ceased on 14 November 2019.

Qualifications, experience and expertise: Tara is presently employed as the Assistant Treasurer and Secretary of Penol and District Financial Services Ltd, Company Secretary of Williams Stores Pty Ltd, runs her own business "Shatarhen Park Equestrian Centre", jointly manages their sheep and cattle property, mother of two and Cheif Instructor at Penola Pony Club. Tara holds a Bachelor of Business (Agricultural Management). Previously, Tara has been employed by ANZ holding positions of Agribusiness Assistant Manager and Penola Branch Manager as well as being involved in the Penola Hunt Club, Mid South East Dressage Club and Penola Show Society.

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 $
38,502	5,448

Directors' interests

	Fully paid ordinary shares		
	Balance at start of the year	Changes during the year	Balance at end of the year
Mark Edwards	10,501	-	10,501
Shane McPherson	4,001	-	4,001
Kirsty Anne Balnaves	42,001	-	42,001
Jennifer Margaret Smibert	36,251	-	36,251
Michael John Palm	81,001	-	81,001
Rhett David McDonald	1,000	-	1,000
Timothy Daniel Finch	-	-	-
Tara Margaret Williams	-	-	-
Batt Sophie Jane Angus	-	-	-
Allison Marie James-Martin	-	-	-
Peter Hans-Erich Muller	3,001	-	3,001

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

Dividends

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

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 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 other matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the company the results of those operations or the state of affairs of the company, in future years.

Likely developments

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

Environmental regulation

The company is not subject to any significant environmental regulation.

Directors' benefits

No director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a director, a firm which a director is a member or an entity in which a director has a substantial financial interest except as disclosed in note 27 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 (including meetings of committees of directors) attended by each of the directors of the company during the financial year were:

	Board Meetings Attended		Committee Meetings Attended	
			Community Investment	
	E	A	E	A
Mark Edwards	13	13	7	4
Shane McPherson	13	9	7	4
Kirsty Anne Balnaves	13	9	7	6
Jennifer Margaret Smibert	13	10	-	-
Michael John Palm	-	-	-	-
Rhett David McDonald	13	10	7	7
Timothy Daniel Finch	13	5	3	-
Tara Margaret Williams	13	12	-	-
Batt Sophie Jane Angus	13	12	-	-
Allison Marie James-Martin	6	3	-	-
Peter Hans-Erich Muller	4	3	-	-

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 26 to the accounts.

The board of directors has considered the non-audit services provided during the year by the auditor and, in accordance with the advice received from the Finance, Audit, and Governance Committee, is satisfied that the provision of the non-audit services is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the

Mark Edwards, Chair

Dated this 5th day of August 2020

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 Penola & District Financial Services Limited

As lead auditor for the audit of Penola & District 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: 5 August 2020

Joshua Griffin
Lead Auditor

Penola & District Financial Services Limited
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	384,983	354,390
Other revenue	9	58,294	39,375
Employee benefit expenses	10e)	(189,545)	(195,024)
Charitable donations, sponsorship, advertising and promotion	10d)	(36,969)	(30,698)
Occupancy and associated costs		(12,792)	(32,250)
Systems costs		(17,932)	(17,486)
Depreciation and amortisation expense	10a)	(44,752)	(37,509)
Finance costs	10b)	(18,027)	(9,601)
General administration expenses		(62,490)	(55,337)
Profit before income tax expense		60,770	15,860
Income tax expense	11a)	(22,268)	(10,412)
Profit after income tax expense		38,502	5,448
Total comprehensive income for the year attributable to the ordinary shareholders of the company:		38,502	5,448
Earnings per share		¢	¢
− Basic and diluted earnings per share:	28a)	4.58	0.65

The accompanying notes form part of these financial statements

Penola & District Financial Services Limited
Statement of Financial Position
as at 30 June 2020

	Notes	2020 $	2019 $
ASSETS			
Current assets			
Trade and other receivables	12a)	22,099	42,920
Total current assets		22,099	42,920
Non-current assets			
Property, plant and equipment	13a)	161,152	174,257
Right-of-use assets	14a)	216,270	-
Intangible assets	15a)	52,735	65,919
Deferred tax asset	16a)	193,848	202,582
Total non-current assets		624,005	442,758
Total assets		646,104	485,678
LIABILITIES			
Current liabilities			
Trade and other payables	17a)	31,233	29,747
Loans and borrowings	18a)	102,900	183,492
Lease liabilities	19b)	9,700	-
Employee benefits	21a)	5,745	9,230
Total current liabilities		149,578	222,469
Non-current liabilities			
Trade and other payables	17b)	29,004	58,009
Lease liabilities	19c)	261,170	-
Employee benefits	21b)	4,743	7,951
Provisions	20a)	1,542	-
Total non-current liabilities		296,459	65,960
Total liabilities		446,037	288,429
Net assets		200,067	197,249
EQUITY			
Issued capital	22a)	829,469	829,469
Accumulated losses	23	(629,402)	(632,220)
Total equity		200,067	197,249

The accompanying notes form part of these financial statements

Penola & District Financial Services Limited
Statement of Changes in Equity
for the year ended 30 June 2020

	Notes	Issued capital $	Accumulated losses $	Total equity $
Balance at 1 July 2018		829,469	(637,668)	191,801
Total comprehensive income for the year		-	5,448	5,448
Balance at 30 June 2019		829,469	(632,220)	197,249
Balance at 1 July 2019		829,469	(632,220)	197,249
Effect of AASB 16: Leases	3d)	-	(35,684)	(35,684)
Restated balance at 1 July 2019		829,469	(667,904)	161,565
Total comprehensive income for the year		-	38,502	38,502
Balance at 30 June 2020		829,469	(629,402)	200,067

The accompanying notes form part of these financial statements

Penola & District Financial Services Limited
Statement of Cash Flows
for the year ended 30 June 2020

	Notes	2020 $	2019 $
Cash flows from operating activities			
Receipts from customers		490,275	415,520
Payments to suppliers and employees		(347,961)	(351,972)
Interest paid		(4,831)	(9,601)
Lease payments (interest component)	10b)	(13,124)	-
Lease payments not included in the measurement of lease liabilities	10f)	(5,787)	-
Net cash provided by operating activities	24	118,572	53,947
Cash flows from investing activities			
Payments for property, plant and equipment		(3,035)	-
Payments for intangible assets		(26,368)	-
Net cash used in investing activities		(29,403)	-
Cash flows from financing activities			
Lease payments (principal component)	19a)	(8,577)	-
Net cash used in financing activities		(8,577)	-
Net cash increase in cash held		80,592	53,947
Cash and cash equivalents at the beginning of the financial year		(183,492)	(237,439)
Cash and cash equivalents at the end of the financial year	18a)	(102,900)	(183,492)

The accompanying notes form part of these financial statements

Note 1 Reporting entity

This is the financial report for Penola & District 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
52 Church Street Penola SA 5277	52 Church Street Penola SA 5277

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 27.

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

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

Leases classified as operating leases under AASB 117

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

Right-of-use assets are measured at either:

- their carrying amount as if AASB 16 had been applied since the lease commencement date, discounted using the company's incremental borrowing rate at the date of initial application: the company applied this approach to its property lease; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments; the company applied this approach to all other leases.

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

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

- did not recognise right-of-use assets and liabilities for leases which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. office equipment and IT 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 increase (decrease)	Note	1 July 2019 $
Asset		
Right-of-use assets - land and buildings	14b)	229,995
Deferred tax asset	16a)	13,535
Liability		
Lease liabilities	19a)	(277,744)
Provision for make-good	20b)	(1,470)
Equity		
Accumulated losses		(35,684)

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	108,509
Add: additional options now expected to be exercised	217,016
Add: variable market review / index based increase	75,450
Less: AASB 117 lease commitments reconciliation	(1,809)
Less: present value discounting	(121,422)
Lease liability as at 1 July 2019	277,744

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 revenue.

The change may be to the method of calculation of margin, the amount of margin, commission and fee income or a change of a margin to a commission or vice versa. This may affect the amount of revenue the company receives on a particular product or service. The effect of the change on the revenue earned by the company is entirely dependent on the change.

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

b) Other revenue

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

Revenue	Revenue recognition policy
Discretionary financial contributions (also "Market Development Fund" or "MDF" income)	MDF income is recognised when the right to receive the payment is established. MDF income is discretionary and provided and receivable at month-end and paid within 14 days after month-end.
Cash flow boost	Cash flow boost income is recognised when the right to the payment is established (e.g. monthly or quarterly in the activity statement).
Other income	All other revenues that did not contain contracts with customers are recognised as 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 reliable estimated.

Defined superannuation contribution plans

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

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

Other long-term employee benefits

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

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

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

e) Taxes

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

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

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

e) Taxes *(continued)*

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.

Deferred tax is not recognised for:

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

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

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

Goods and Services Tax

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

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

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

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

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. Bank overdrafts are shown as current liabilities within loans and borrowings in the statement of financial position.

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
Leasehold improvements	Straight-line	5 to 15 years
Plant and equipment	Straight-line and diminishing value	2.5 to 10 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 establishment fee	Straight-line	Over the franchise term (5 years)
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 or one entity and a financial liability or equity instrument of another entity. The company's financial instruments include trade debtors and creditors, cash and cash equivalents, borrowings, 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:

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

Loss allowance is not recognised for:

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

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

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

This approach is applicable to:

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

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

Recognition of expected credit losses in financial statements

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

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

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

j) Impairment *(continued)*

Non-financial assets

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

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

k) Issued capital

Ordinary shares

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

l) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

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

The estimated provisions for the current and comparative periods are to restore the premises under a 'make-good' clause.

The company is required to restore the leased premises to its 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.

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

m) Leases *(continued)*

Policy applicable from 1 July 2019 (continued)

As a lessee *(continued)*

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

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the company by the end of the lease term or the costs of the right-of-use asset reflects that the company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

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

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual guarantee; and
- the exercise price under a purchase option the company is reasonable certain to exercise, lease payments in an option renewal period if the group is reasonably certain to exercise that option, and penalties for early termination of a lease unless the group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the company's estimate of the amount expected to be payable under a residual value guarantee, if the company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

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

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.

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

m) Leases *(continued)*

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.

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 19 - leases:	
a) control	a) whether a contract is or contains a lease at inception by assessing whether the company has the right to direct the use of the identified asset and obtain substantially all the economic benefits from the use of that asset;
b) lease term	b) whether the company is reasonably certain to exercise extension options, termination periods, and purchase options;
c) discount rates	c) judgement is required to determine the discount rate, where the discount rate is the company's incremental borrowing rate if the rate implicit in the lease cannot be readily determined. The incremental borrowing rate is determined with reference to factors specific to the company and underlying asset including: - the amount; - the lease term; - economic environment; and - other relevant factors.

b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at 30 June 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 16 - recognition of deferred tax assets	availability of future taxable profit against which deductible temporary differences and carried-forward tax losses can be utilised;
- Note 13 - estimation of useful lives of assets	key assumptions on historical experience and the condition of the asset;
- Note 21 - long service leave provision	key assumptions on attrition rate and pay increases though promotion and inflation;
- Note 20 - 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.

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 maintains the following lines of credit with Bendigo Bank:

– $250,000 overdraft facility that is unsecured with available facility of $147,100 as at 30 June 2020. Interest is payable at a rate of 2.92% (2019: 3.771%)

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
Bank overdraft	102,900	102,900	-	-
Lease liabilities	270,870	22,464	96,562	261,092
Trade payables	2,318	2,318	-	-
	376,088	127,682	96,562	261,092

Note 6 Financial risk management *(continued)*

b) Liquidity risk *(continued)*

30 June 2019

Non-derivative financial liability	Carrying amount	Contractual cash flows: Not later than 12 months	Between 12 months and five years	Greater than five years
Bank overdraft	183,492	183,492	-	-
Trade payables	5,854	5,854	-	-
	189,346	189,346	-	-

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

c) Market risk

Market risk

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

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

Price risk

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

Cash flow and fair value interest rate risk

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

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	384,983	354,390
	384,983	354,390

Disaggregation of revenue from contracts with customers

At a point in time:		
– Margin income	177,676	193,627
– Fee income	18,266	19,530
– Commission income	189,041	141,233
	384,983	354,390

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

Note 9 Other revenue

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

Other revenue	2020 $	2019 $
Revenue:		
− Market development fund income	37,500	39,375
− Cash flow boost	20,794	-
	58,294	39,375

Note 10 Expenses

a) Depreciation and amortisation expense	2020 $	2019 $
Depreciation of non-current assets:		
- Leasehold improvements	12,971	12,971
- Plant and equipment	3,169	2,538
	16,140	15,509
Depreciation of right-of-use assets		
− Leased land and buildings	15,428	-
	15,428	-
Amortisation of intangible assets:		
− Franchise fee	2,198	2,000
− Franchise establishment fee	10,986	20,000
	13,184	22,000
Total depreciation and amortisation expense	44,752	37,509

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

b) Finance costs	Note	2020 $	2019 $
Finance costs:			
- Bank overdraft interest paid or accrued		4,831	9,601
- Lease interest expense	19a)	13,124	-
- Unwinding of make-good provision		72	-
		18,027	9,601

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

Note 10 Expenses *(continued)*

c) Impairment loss on trade receivables and contract assets

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

d) Charitable donations, sponsorship, advertising and promotion

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

	2020 $	2019 $
- Direct sponsorship, advertising, and promotion payments	36,969	30,698
	36,969	30,698

e) Employee benefit expenses

Wages and salaries	163,599	162,684
Contributions to defined contribution plans	14,171	15,576
Expenses related to long service leave	(3,208)	3,853
Other expenses	14,983	12,911
	189,545	195,024

f) Recognition exemption

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

	2020 $	2019 $
Expenses relating to low-value leases	5,787	-
	5,787	-

Expenses relating to leases exempt from recognition are included in system 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 11 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)		
- Future income tax benefit attributable to losses	-	7,733
- Movement in deferred tax	(16,159)	2,679
- Adjustment to deferred tax on AASB 16 retrospective application	13,535	-
- Reduction in company tax rate	11,184	-
- Recognition of previously unrecognised tax losses	13,708	-
	22,268	10,412

Progressive changes to the company tax rate have been enacted. Consequently, as of 1 July 2020, the company tax rate will be reduced from 27.5% to 26%. This change resulted in a gain of $11,184 related to the remeasurement of deferred tax assets and liabilities of the company.

b) *Prima facie* income tax reconciliation	2020 $	2019 $
Operating profit before taxation	60,770	15,860
Prima facie tax on profit from ordinary activities at 27.5% (2019: 27.5%)	16,712	4,362
Tax effect of:		
− Non-deductible expenses	92	6,050
− Temporary differences	2,623	(2,679)
− Other assessable income	(5,718)	-
− Movement in deferred tax	(16,159)	2,679
− Leases initial recognition	13,535	-
− Reduction in company tax rate	11,184	-
	22,269	10,412

Note 12 Trade and other receivables

a) Current assets	2020 $	2019 $
Trade receivables	18,789	36,384
Prepayments	3,310	6,536
	22,099	42,920

Note 13 Property, plant and equipment

a) Carrying amounts

	2020 $	2019 $
Leasehold improvements		
At cost	227,824	227,824
Less: accumulated depreciation and impairment	(77,740)	(64,769)
	150,084	163,055
Plant and equipment		
At cost	32,718	29,683
Less: accumulated depreciation and impairment	(21,650)	(18,481)
	11,068	11,202
Total written down amount	161,152	174,257

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

b) Reconciliation of carrying amounts

	2020 $	2019 $
Leasehold improvements		
Carrying amount at beginning	163,055	176,026
Depreciation	(12,971)	(12,971)
Carrying amount at end	150,084	163,055
Plant and equipment		
Carrying amount at beginning	11,202	13,740
Additions	3,035	-
Depreciation	(3,169)	(2,538)
Carrying amount at end	11,068	11,202
Total written down amount	161,152	174,257

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 14 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		310,077	-
Less: accumulated depreciation and impairment		(93,807)	-
		216,270	-
Total written down amount		216,270	-

b) Reconciliation of carrying amounts	Note	2020 $	2019 $
Leased land and buildings			
Initial recognition on transition	3d)	308,373	-
Accumulated depreciation on adoption	3d)	(78,378)	-
Remeasurement adjustments		1,703	-
Depreciation		(15,428)	-
Carrying amount at end		216,270	-
Total written down amount		216,270	-

Note 15 Intangible assets

a) Carrying amounts	2020 $	2019 $
Franchise fee		
At cost	20,987	20,987
Less: accumulated amortisation and impairment	(12,198)	(10,000)
	8,789	10,987
Franchise establishment fee		
At cost	100,000	100,000
Less: accumulated amortisation and impairment	(100,000)	(100,000)
	-	-

Note 15 Intangible assets *(continued)*

a) Carrying amounts *(continued)*

	2020 $	2019 $
Franchise renewal process fee		
At cost	54,932	54,932
Less: accumulated amortisation and impairment	(10,986)	-
	43,946	54,932
Total written down amount	52,735	65,919

b) Reconciliation of carrying amounts

	2020 $	2019 $
Franchise fee		
Carrying amount at beginning	10,987	2,000
Additions	-	10,987
Amortisation	(2,198)	(2,000)
Carrying amount at end	8,789	10,987
Franchise establishment fee		
Carrying amount at beginning	-	20,000
Amortisation	-	(20,000)
Carrying amount at end	-	-
Franchise renewal process fee		
Carrying amount at beginning	54,932	-
Additions	-	54,932
Amortisation	(10,986)	-
Carrying amount at end	43,946	54,932
Total written down amount	52,735	65,919

c) Changes in estimates

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

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

Note 16 Tax assets and liabilities

a) Deferred tax

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

	30 June 2019	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	30 June 2020
Deferred tax assets	$	$	$	$	$
− expense accruals	495	(27)	-	-	468
− employee provisions	4,725	(1,998)	-	-	2,727
− make-good provision	-	(3)	-	404	401
− lease liability	-	(5,954)	-	76,380	70,426
− carried-forward tax losses	208,828	(24,352)	-	-	184,476
Total deferred tax assets	214,048	(32,334)	-	76,784	258,498
Deferred tax liabilities					
− property, plant and equipment	11,466	(3,046)	-	-	8,420
− right-of-use assets	-	119,479	-	(63,249)	56,230
Total deferred tax liabilities	11,466	116,433	-	(63,249)	64,650
Net deferred tax assets (liabilities)	202,582	(148,766)	-	13,535	193,848

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

	30 June 2018	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	30 June 2019
Deferred tax assets	$	$	$	$	$
− expense accruals	771	(276)	-	-	495
− employee provisions	4,008	717	-	-	4,725
− carried-forward tax losses	216,561	(7,733)	-	-	208,828
Total deferred tax assets	221,340	(7,292)	-	-	214,048
Deferred tax liabilities					
− property, plant and equipment	8,346	3,120	-	-	11,466
Total deferred tax liabilities	8,346	3,120	-	-	11,466
Net deferred tax assets (liabilities)	212,994	(10,412)	-	-	202,582

Note 16 Tax assets and liabilities *(continued)*

b) 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 17 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	2,318	5,854
Other creditors and accruals	28,915	23,893
	31,233	29,747

b) Non-current liabilities		
Other creditors and accruals	29,004	58,009
	29,004	58,009

Note 18 Loans and borrowings

a) Current liabilities	2020 $	2019 $
Bank overdraft	102,900	183,492
	102,900	183,492

Bank overdraft

The company has an approved overdraft limit of $250,000 which was drawn down to $102,900. The company has $147,100 overdraft remaining before exceeding the approved limited or required to re-negotiate the terms.

Interest is recognised using the effective interest method, currently 2.92% (2019: 3.77%).

b) Terms and repayment schedule

	Nominal interest rate	Year of maturity	30 June 2020 Face value	30 June 2020 Carrying value	30 June 2019 Face value	30 June 2019 Carrying value
Bank overdraft	2.9%	Floating	102,900	102,900	183,492	183,492

Note 19 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:

- Penola Branch — The lease agreement is a non-cancellable lease with an initial term of five years which commenced in June 2014. An extension option term of five years was exercised in June 2019. The lease has two further five year extension options available. The company is reasonably certain to exercise the final five-year lease term.

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

a) Lease liability measurement

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

Lease liabilities on transition	Note	2020 $	2019 $
Initial recognition on AASB 16 transition	3d)	277,744	-
Remeasurement adjustments		1,703	-
Lease payments - interest		13,124	-
Lease payments		(21,701)	-
		270,870	-

b) Current lease liabilities

Property lease liabilities		22,464	-
Unexpired interest		(12,764)	-
		9,700	-

Note 19 Lease liabilities *(continued)*

c) Non-current lease liabilities

	2020 $	2019 $
Property lease liabilities	357,654	-
Unexpired interest	(96,484)	-
	261,170	-

d) Maturity analysis

	2020 $	2019 $
− Not later than 12 months	22,464	-
− Between 12 months and 5 years	96,562	-
− Greater than 5 years	261,092	-
Total undiscounted lease payments	380,118	-
Unexpired interest	(109,248)	-
Present value of lease liabilities	270,870	-

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 a decrease in profit after tax of $5,019.

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	21,701	(21,701)	-
− Depreciation and amortisation expense	-	15,428	15,428
− Finance costs	-	13,196	13,196
Increase in expenses - before tax	21,701	6,923	28,624
− Income tax expense / (credit) - current	(5,968)	5,968	-
− Income tax expense / (credit) - deferred	-	(7,872)	(7,872)
Increase in expenses - after tax	15,733	5,019	20,752

Note 20 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	1,542	-
	1,542	-

b) Make-good provision

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

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

Provision	Note	2020 $	2019 $
Face-value of make-good costs recognised	3d)	3,000	-
Present value discounting	3d)	(1,530)	-
Present value unwinding		72	-
		1,542	-

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 31 May 2034 at which time it is expected the face-value costs to restore the premises will fall due.

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	72	76	79	83	1,220
Statement of financial position					
Liability:					
- Make-good provision	1,542	1,618	1,697	1,780	3,000

Note 21 Employee benefits

a) Current liabilities

	2020 $	2019 $
Provision for annual leave	5,745	9,230
	5,745	9,230

b) Non-current liabilities

Provision for long service leave	4,743	7,951
	4,743	7,951

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 22 Issued capital

a) Issued capital

	2020 Number	2020 $	2019 Number	2019 $
Ordinary shares - fully paid	841,329	841,329	841,329	841,329
Less: equity raising costs		(11,860)		(11,860)
	841,329	829,469	841,329	829,469

b) Rights attached to issued capital

Ordinary shares

<u>Voting rights</u>

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.

Note 22 Issued capital *(continued)*

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

Ordinary shares (continued)

Dividends

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

Transfer

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

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

Prohibited shareholding interest

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

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

- They control or own 10% or more of the shares in the company (the "10% limit").
- In the opinion of the board they do not have a close connection to the community or communities in which the company predominantly carries on business (the "close connection test").
- Where the person is a shareholder, after the transfer of shares in the company to that person the number of shareholders in the company is (or would be) lower than the base number (the "base number test"). The base number is 184. As at the date of this report, the company had 202 shareholders (2019: 203 shareholders).

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

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

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

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

Note 23 Accumulated losses

	Note	2020 $	2019 $
Balance at beginning of reporting period		(632,220)	(637,668)
Adjustment for transition to AASB 16	3d)	(35,684)	-
Net profit after tax from ordinary activities		38,502	5,448
Balance at end of reporting period		(629,402)	(632,220)

Note 24 Reconciliation of cash flows from operating activities

	2020 $	2019 $
Net profit after tax from ordinary activities	38,502	5,448
Adjustments for:		
− Depreciation	31,568	15,509
− Amortisation	13,184	22,000
Changes in assets and liabilities:		
- (Increase)/decrease in trade and other receivables	20,823	(11,943)
- (Increase)/decrease in other assets	22,269	10,412
- Increase/(decrease) in trade and other payables	(1,153)	9,916
- Increase/(decrease) in employee benefits	(6,693)	2,605
- Increase/(decrease) in provisions	72	-
Net cash flows provided by operating activities	118,572	53,947

Note 25 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	12	18,789	36,384
		18,789	36,384
Financial liabilities			
Trade and other payables	17	2,318	5,854
Bank overdrafts	18	102,900	183,492
Lease liabilities	19	270,870	-
		105,218	189,346

Note 26 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	600	950
– General advisory services	3,540	1,830
– Share registry services	1,900	1,885
	6,040	4,665
Total auditor's remuneration	10,840	9,265

Note 27 Related parties

a) Details of key management personnel

The directors of the company during the financial year were:

Mark Edwards
Shane McPherson
Kirsty Anne Balnaves
Jennifer Margaret Smibert
Michael John Palm
Rhett David McDonald
Timothy Daniel Finch
Tara Margaret Williams Batt
Sophie Jane Angus
Allison Marie James-Martin

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.

Note 27 Related parties *(continued)*

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 $
- Grocery products were purchased from the Penola IGA managed by Shane McPherson. The total benefit received was:	559	320
- Angela Foster provides data entry and bookkeeping services for the company. The total benefit received was:	-	2,858
- Tara Batt provides services of Company Secretay and Assistant Treasurer. The total benefit received was:	6,919	-
Total transactions with related parties	7,478	3,178

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 branch at BRANCH. 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 28 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	38,502	5,448
	Number	Number
Weighted-average number of ordinary shares	841,329	841,329
	Cents	Cents
Basic and diluted earnings per share	4.58	0.65

Note 29 Commitments

a) Lease commitments

Following adoption of AASB 16 as of 1 July 2019, all lease commitment information and amounts for the financial year ending 30 June 2020 can now be found in 'Lease liabilities' (Note 19).

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	-	21,702
− between 12 months and 5 years	-	86,807
Minimum lease payments payable	-	108,509

b) Other commitments

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

Note 30 Contingencies

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

Note 31 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.

Penola & District Financial Services Limited
Directors' Declaration

In accordance with a resolution of the directors of Penola & District Financial Services Limited, we state that:

Mark Edwards, Chair

Dated this 5th day of August 2020

Partners in success

Chartered Accountants

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PO Box 454, Bendigo 3552
03 5443 0344
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Independent auditor's report to the members of Penola & District Financial Services Limited

Report on the audit of the financial report

Our opinion

In our opinion, the accompanying financial report of Penola & District 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

Penola & District 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.

Partners in success

Chartered Accountants

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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: 5 August 2020

Joshua Griffin
Lead Auditor

Bendigo and Adelaide Bank Report

For year ending 30 June 2020

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

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

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

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

Just as the fires had been extinguished and the Bank's Community Enterprise Foundation was working with government, not-for-profit organisations and impacted communities to distribute donations, the global COVID-19 pandemic arrived.

The impact of this pandemic was, and continues to be, more than about health. The impacts are far-reaching and banking is not immune. Your support as a shareholder, and a customer, of your local Community Bank company has never been so important.

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

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

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

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

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

If 2020 has shown us anything, it's that we're stronger for the partnerships we have with the communities we operate in.

On behalf of Bendigo and Adelaide Bank, we thank all of our Community Bank company directors and shareholders and your branch staff and customers for your continued support throughout the year.

Mark Cunneen

Head of Community Support
Bendigo and Adelaide Bank

PENOLA & DISTRICT FINANCIAL SERVICES LTD
ANNUAL REPORT 2020
CHAIRMAN'S REPORT

On behalf of the Board I am pleased to present our seventh Annual Report.

It has been another year of experiencing a difficult operating environment.

The major factors have been reducing interest rates and margins impacting on our revenue plus the arrival of and the continuing associated upheaval and uncertainties associated with the Covid-19 pandemic.

That said, it is very pleasing to report an increased Net Profit (after tax) of $38,502.

Contributing to this was an increase in total footings of 13% and an increase in customer generated revenue of 9%.

Also, whilst interest rates and margins shrank there was a significant increase in our Rural Bank business and associated income.

Costs have continued to be closely monitored with employee costs reducing slightly.

With the increased profit together with a Covid-19 related Australian Government cash boost of $20,794 we were able to achieve a significant reduction to our overdraft facility (after market development receipts and payments).

During the year there were three staff resignations, Tanya Mourbey, Melissa Porter and Heather Devlin. We thank them for their commitment to the Community Bank and their efforts to promote and grow the business.

Since our earliest days Mount Gambier Community Bank have provided us with a high degree of support for which we most grateful. This continued over the latter half of the year and whilst we recruited customer service staff, we have continued with the temporary arrangement that Mount Gambier undertake the managerial role in the branch for us. This arrangement is under ongoing review as we monitor Covid 19 developments and the general state of the local and wider economy.

I take the opportunity to thank my fellow directors for their support and efforts as they continue to make their time and efforts available on a voluntary basis to the Company and the community.

During the year we had a number of changes to our board.

Tim Finch and Alli James-Martin resigned, and we thank them for their contributions.

Peter Muller also retired in November last year. Peter was one of "the originals" who worked so hard to establish our Community Bank, then served on the board and was Company Secretary for a number of years. This is a time consuming, important and responsible position and we are most grateful to Peter for all that he contributed.

We welcomed Tara Batt and Sophie Angus as new additions to the board and welcomed back Michael Palm for a second stint. They bring a wide range of knowledge and experience and have already made a valuable contribution.

It is always pleasing to report on the number of community contributions that have been made with the generous support of Bendigo Bank.

This year almost $33,000 was paid to a number of clubs and organisations with the most significant contributions to Tandara Lodge, Pinchunga Aged Care and the Penola High School World Challenge students. This is a worthy amount considering the Covid-19 related shutdown of so much of our community activity.

As we look to the future, we must recognise the vastly increased uncertainties we all face in this Covid-19 impacted world and its effect on both our local and wider economy.

The banking industry and our business has seen an accelerated shift to the use of electronic/digital services and the subsequent reduction in the use of and demand for the traditional face to face type services.

Our aim has always been to be seen as an important part of our community as the only bank in town providing banking products and an important service together with community contributions and support.

We are fortunate that our region is so closely connected to the relatively strong Agri-business sector. Our successful association with our Rural Bank partners and managers, Simon O'Leary and Luke Reilly, provides many opportunities for us and our customers and potential customers. We encourage you all to seek out their offerings.

As always, we thank our customers, shareholders and partners for their support and ask that they continue to help us in our efforts to build a long-term sustainable business.

Mark Edwards

Chair