# KU-RING-GAI FINANCIAL SERVICES LIMITED

ABN 56 103 129 184

# ANNUAL REPORT 2022

Community Bank
Turramurra and Lindfield

Bendigo Bank

Staff Grants – May 2022

# KU-RING-GAI FINANCIAL SERVICES LIMITED

ABN 56 103 129 184

# ANNUAL REPORT 2022

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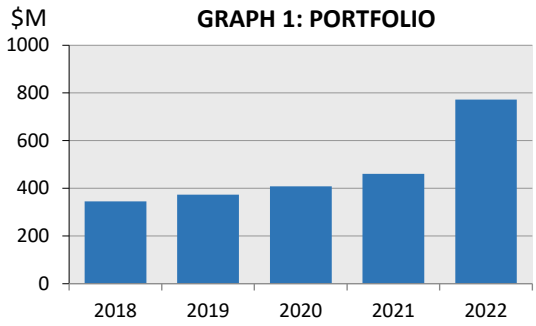
# Chairman's Report

It is my pleasure as the Chairman of Ku-ring-gai Financial Services Limited ("KFSL") to report on the company's progress during the year ended 30 June 2022.

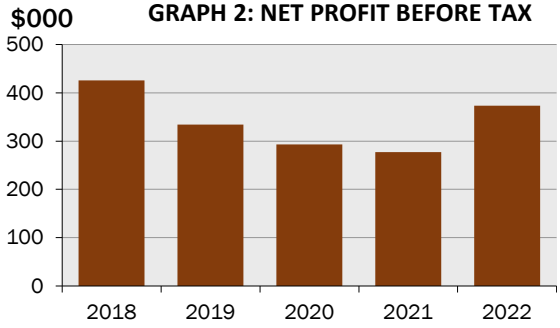
KFSL strives for long-term sustainability as a company, for its shareholders and for the community it serves. To be sustainable KFSL needs to achieve acceptable long-term financial returns that are supported with positive outcomes from our social and environmental impact and the manner in which we govern ourselves.

## Financial Results

We started the year with COVID lockdowns and finished the year amid rapidly changing economic conditions. Our results though continue to be robust with profit before tax for the year at $372,648, up 34.5% from $276,983 last year. Our total portfolio grew from $461 million to $772 million however this was boosted by an unusually high level of short-term commission-earning financial markets deposits received prior to year-end.




**GRAPH 1: PORTFOLIO**




**GRAPH 2: NET PROFIT BEFORE TAX**

A more representative measure of our growth is in the total margin earning portfolio that grew by 4% from $426 million to $443 million with growth in deposits offsetting the higher than anticipated run-off and lower growth in our loan book.

Our CEO, Martin Watkins, provides more details on our financial results in his report.

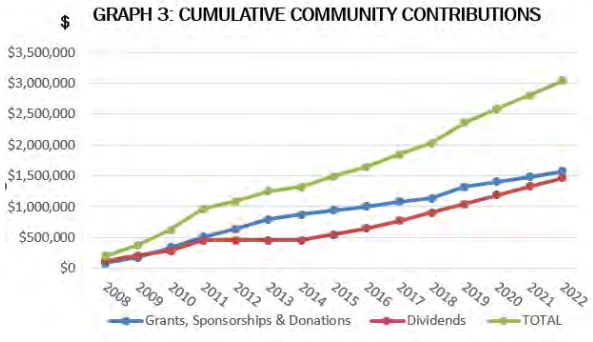
## Notice of expected material elevation in company revenues

In terms of its franchise agreement with Bendigo and Adelaide Bank (BABL), Ku-ring-gai Financial Services Limited (KFSL) delivers BABL's banking and financial services to its community. The franchise agreement provides for a share of interest margin, fee and commission revenue to be earned by KFSL on the outstanding portfolio of loans, deposits and other business sourced by KFSL.

The unaudited accounts of KFSL for the first quarter of its financial year ending 30 June 2023 (FY23) indicate that the continued increase in the cash rate by the Reserve Bank of Australia has materially elevated the level of earnings for KFSL on this portfolio compared to the prior year. If this trend continues, KFSL expects its revenue from contracts with customers for FY23 to exceed the prior year by 45% to 65% with a related material uplift in profit for the year.

## Social Impact

As a community-based organisation, having a strong social impact is at the heart of our purpose. Our cumulative community contributions since inception now total $3,041,503 million and we continue to broaden our network of community partners who, with KFSL, provide financial and non-financial support to our community groups. Our Community Development Manager, Sharon Franke, provides a comprehensive summary of our community activities in her report.




## Environment

BABL issued their Climate Change Policy Statement in 2020 and updated this in October 2021. The policy concentrates BABL's efforts on the following four focus areas of activity, which incorporate the direct and indirect environmental impacts and influence BABL has through its operations:

- **Reduce our footprint:** reduce the carbon and environmental footprint of its operations.
- **Support our customers:** support their customers and communities to mitigate, adapt and respond to climate change.
- **Understand and manage the risks:** optimise their climate change risk governance and risk management framework.
- **Be transparent:** disclose climate-related performance.

KFSL recognises and supports BABL's Climate Change Policy. While noting that KFSL is a far smaller entity than BABL with a smaller environmental footprint and impact, the Board is committed to incorporating these focus areas into KFSL's ongoing operations and will report next year on its progress.

## Governance

Good corporate governance at KFSL provides confidence to our customers, investors, community groups and other stakeholders that, within the company, an effective framework of rules, relationships, systems and processes exist by which authority is exercised and controlled. This year we have provided in the Annual Report a Corporate Governance Statement detailing the key elements of KFSL's corporate governance framework.

## Business Environment

There has been a marked change in the business environment during the course of the Financial Year. COVID has continued to have a major impact with lockdowns at the beginning of the year, continued disruption to community events and engagement, and ongoing need for staff to stay or work from home. However, as we now learn to cope with COVID, so it has enabled us to move back to normal operations. A good example of this is that we will hold our second Community Pitch night at Roseville Golf Club on 26 October 2022 following the highly successful inaugural event held prior to COVID in November 2019.

KYDS we hear you – Loud and Clear!

For several years my report commented on the very low interest rate environment and clearly this has changed considerably during the year as the Reserve Bank of Australia has responded to rapidly rising inflation with a series of official cash rate hikes. During the year this slowed down the rate of increase in house prices and subsequently house prices have begun to decline and are forecast to continue to do so over the next few years. While this is likely to put downward pressure on the volume of residential property transactions, the upturn in the interest rate cycle is starting to see margins improve from the very low levels we have experienced in recent years.

A significant competitive factor for the company is the continuing trend towards the origination of home lending through both broker and digital channels. This trend will continue to place pressure on KFSL's ability to originate loan business through our traditional branch and community networks. BABL highlighted these trends in their FY22 results, commenting to the market that broker-originated mortgages accounted for almost three quarters of the bank's new home lending during the year and the level of digital sales increased significantly. BABL did emphasise though that the community bank network continues to be an important source of term deposits for BABL and in this regard, KFSL's deposit portfolio did grow by 12% during the year and continues to be much larger than our loan portfolio.

International Nurses Day - Hornsby Ku-ring-gai Hospital

## Our People

There has been a considerable change on the KFSL Board during the year as we farewelled some longstanding directors and, through our Board Observer program, brought on several new directors with excellent skills and experience to help guide the company through its next phase of development. I mentioned last year that Amanda Descoeudres resigned in October 2021. Due to personal reasons, we, unfortunately, saw Rune Henriksen depart soon after his appointment. During the year we farewelled John Gallu and Roman Tarnawsky and, on behalf of the Board, I would like to formally thank them both for the many years of excellent service they gave to the Board and the company.

Roman Tarnawsky - farewell

I was delighted though that during the year the Board appointed both Tony Carr and Connor Grindlay to the Board. Tony is an experienced banker as well as an ex-councillor in North Sydney. Connor is an experienced business investor and manager and an ex-Board member of another community bank company. Unfortunately, due to his involvement in other business interests, Tony will not pursue election to the Board by shareholders at the AGM. Although a director for only a short time, I would like to thank Tony for his valued contribution to the Board while with us. In July 2022 we were also pleased to welcome Stephen Brickett to the Board. Stephen has extensive banking and finance experience and is a qualified Chartered

Accountant. Lastly, in August 2022, Zoe Baker joined us as a Board Observer. Zoe has deep sales, marketing and small business management skills.

Martin Watkins provides commentary on key staff movements during the year in his report.

Once again, on behalf of the Board, I would like to recognise and thank our CEO, all the staff and those supporting us at Bendigo and Adelaide Bank for their considerable effort and achievements during the year. Personally, I would like to thank all my colleagues on the Board for their tremendous support and commitment.

$10k grant to Hornsby Ku-ring-gai Community Transport

## Our shareholders

We advised Shareholders of a change to the timing of the annual dividend from the typical April to June period to sooner after the completion of the Annual Report. Consequently, in December 2021 we paid shareholders a fully franked dividend of 6.25 cents per share which matched the dividend paid in the prior year. Subsequent to finalising the FY22 Financial Statements, the Board approved the payment of a fully franked dividend of 7.25 cents per share. Shareholders will receive formal notification of this dividend and payment details shortly.

I would like to again say to all shareholders that we really appreciate your continued advocacy and support of the company.

Hornsby Gang Show 2022

The 20th Annual General Meeting will be held at Turramurra Bowling Club on Thursday, 17th November 2022 commencing at 6.00pm. Further details will be provided to shareholders shortly. I look forward to meeting shareholders at the AGM.

## Our Focus and Outlook

The focus of the company is to grow the business by;

- Enhancing and improving the flexibility of our sales and distribution capability to write more loans;
- Evolving our customer engagement model to respond to the decline of business originated through the traditional branch model;
- Expanding our community network to enhance the breadth of our community partnerships; and
- Ensuring we are profitable and make the best use of available cash including consideration of acquisition opportunities.

The Board and the CEO remain committed to pursuing these objectives and remain positive about the sustainable value that can be achieved for both shareholders and the community we serve.

Alan Bardwell

**Chairman**

# Corporate Governance Statement

Ku-ring-gai Financial Services Limited (KFSL) is committed to maintaining high standards of corporate governance and ethics in the conduct of its operations. The Board is ultimately responsible for the governance of the company and ensuring that Directors, management, and staff comply with applicable laws, policies, and standards.

This statement sets out the key aspects of KFSL's corporate governance framework that supports the Board in discharging its responsibilities.

EPIC screening of Connecting the Dots - youth mental health documentary

**Governing documents**

KFSL has several documents that holistically provide the framework against which the company is governed. The primary documents are the company's constitution and the Franchise Agreement between KFSL and Bendigo and Adelaide Bank (BABL). These are supported by BABL policies and procedures that apply to, or have been adopted by KFSL, and policies that have been developed and approved by the Board specifically for KFSL. The Board also develops charters to support effective governance of the Board and its committees.

**The Board**

The primary document governing the Board's activities is the Company's constitution. The Board has also approved a Charter that clearly defines the role and responsibilities of the Board and its operations. A Board approved Director's policy provides further guidance on Director responsibilities, authority, and conduct. The Charter and Director Policy are reviewed at least every two years by the Board.

The Board generally meets monthly and more frequently if required to review the company's performance against budget and other key performance measures, review its involvement in and support for community initiatives, receive and discuss feedback from each of its committees, discusses and agree actions relating to operational and financial risks and opportunities and address any other items in accordance with its Charter. The Board also conducts several workshops throughout the year, at least one of which focuses on strategic planning.

The Board comprises of at least three and up to ten non-executive directors. All positions are voluntary. Board succession planning is continuously assessed by the Board's Human Resources (HR) Committee and ratified with the Board to ensure an appropriate and diverse level of skills, experience, and representation.

Potential Board members are interviewed by the Chair and HR Committee and are initially appointed as Board observers for at least 2 months during which they undergo an induction program. Thereafter, the Board considers and approves their appointment to the Board subject to meeting KFSL, BABL and ASIC registration requirements. All Board positions are subject to satisfactory fit and proper checks and are ratified by the

shareholders at the next AGM for a term of 3 years. Subsequent terms of 3 years are approved by shareholders at the relevant AGM.

The Company Constitution further stipulates that at least one third of directors are to retire by rotation at every AGM, noting that the retiring directors are eligible for re-election.

A Board approved Director tenure policy has a full term of ten years which can be extended to a maximum of 12 years at the discretion of the Board.

Each year the Board assesses its performance. Periodically the Board engages an external independent party to conduct a review of Board performance. The last external review conducted in August 2021 highlighted that the Board was functioning appropriately and made several recommendations, all of which have either been actioned or are in the process of being actioned.

**Board committees**

The Board delegates its responsibilities to three Board committees:

- the Finance, Risk and Governance ("Operations") Committee covering audit, financial and non-financial risks and opportunities, and compliance matters;
- the Customer and Community Committee covering sales, distribution, marketing, and community engagement; and
- the Human Resources Committee covering organisation, staffing, remuneration and Director nomination activities.

Each Committee is governed by a Board approved charter that is reviewed every two years, comprises of at least three directors and is chaired by a director who is not the Board Chair. Each committee reports back to the Board quarterly or more frequently if required.

Where required, the Board also delegates development of strategy to a Strategy Committee which then reports back to the Board or assists in conducting full board strategy workshops. The Board Chair currently chairs the Strategy Committee.

The Board also establishes ad-hoc committees to address items that do not fall within the charters of the above-mentioned committees. The Board agrees on the scope of those ad-hoc committees which report back to the Board on its findings and recommendations.

**Management and staff**

The company's operations are managed by a Board appointed Chief Executive Officer who has Board approved delegated authorities. The Board sets annual performance objectives for the CEO aligned to the company's strategy and business plan objectives and at the end of each year reviews the CEO's performance against those objectives.

Baked treats for Meals on Wheels clients

The CEO is supported by a part time Treasurer and a Company Secretary who are remunerated for their services. The Treasurer is responsible for maintaining the financial records of the company, production of all financial related reports, cash management and investment of the company's assets. The Company Secretary is responsible for coordinating Board meetings, including the completion and dispatch of Board packs, minuting the meetings, facilitating the company's share trades through the Low Volume Market, meeting all legislated reporting requirements and monitoring the company's compliance with the Franchise Agreement and its constitution.

KFSL is a small company with limited resources and the Board recognises that at certain times directors with requisite skills and experience will provide executive level support to the CEO.

**Conflicts of interest**

KFSL's Company Secretary maintains a Conflicts of Interest Register to record each director's material personal interests. The register is presented at every Board meeting and Directors are asked if they have any changes to actual or perceived conflicts that need to be advised to the Board. In the event of a potential conflict, the matter is reviewed by the rest of the Board which determines if the conflict can be managed or not and, where applicable, the actions required to be taken. A director will not be permitted to vote or attend discussions on any matter where they have a material conflict.

Turramurra Public School Movie Night

**Use of independent parties**

KFSL contracts services from third parties to obtain expertise that either does not reside in-house or where an external opinion on its operations is required. During the year the company used an external provider to provide marketing services to the company, external legal and accounting advisors, and a BABL sourced consultant to conduct a Board Performance review. KFSL engages an external Registry Service Provider to maintain its Share Register.

KFSL is subject to regular internal audits of its branch operations by BABL with audit reports sent to the Board Chair and reviewed by the Board. The company's CEO is assigned with the responsibility of responding to each finding with the status of each communicated to and monitored by the Board. KFSL also uses an independent external audit firm to audit its annual and half yearly financial reports.

**Risk management**

KFSL has a multi-layered risk management framework. The Board, through its Operations Committee, maintains and reviews a comprehensive risk register with relevant committees having accountability to oversee each of its risks against the Board's risk appetite.

The annual strategic review also considers key risks that could impact the company's ability to achieve its strategic objectives. Board papers requiring a resolution use a standard template that includes an assessment of risks and how they either will or are being managed. The CEO reports to the Board each month and includes commentary on any material changes to the risk profile. At an operational level, staff conduct monthly control effectiveness assessments which are reported to the Board and then verified by BABL branch reviews. Staff also undergo regular training on risk and compliance matters.

**Communications to shareholders**

The Board is committed to providing shareholders with material information affecting the company in a timely manner. This is achieved through multiple communication channels which include: our website (https://tlcbb.com.au); our annual and half-yearly financial reports; dividend announcements; notices of the AGM; the company's AGM; our community newsletter ("Community Matters"); and email communications. The shareholders also have access to the Registry Direct platform maintained by KFSL's registry services provider (AFS) where they can see the details of their shareholdings and statements.

# Chief Executive Officer's Report

At its core, the success of the Community Bank model is due to the fact that we return the profits from our banking operations to the people of Ku-ring-gai. However, we operate in a competitive environment. Over the last 3 years especially, the shape of retail banking has changed quite dramatically with the shift toward digital and cashless banking, and declining foot traffic in bank branches, particularly in urban and metropolitan areas. Customers are preferring the convenience and increased safety of contactless, cashless and digital channels.

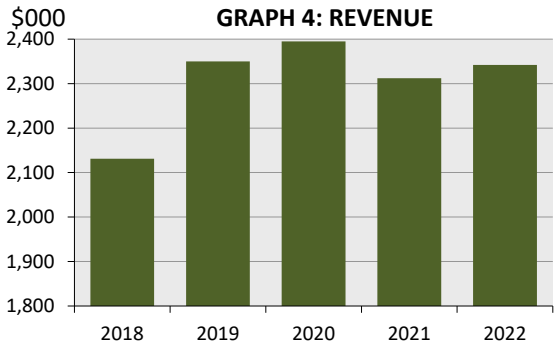
Staff Grants – May 2022

In addition, the regulators' response to the Banking Royal Commission has resulted in more onerous responsibilities being placed upon the Financial Services Industry. Issues such as stronger responsible lending guidelines, anti- hawking legislation are appropriate to protect customers, but add another layer of compliance to organisations. Thus, the Financial Service industry is a more complex environment, but if we focus on what we can control and what we can deliver, there are still plenty of opportunities!

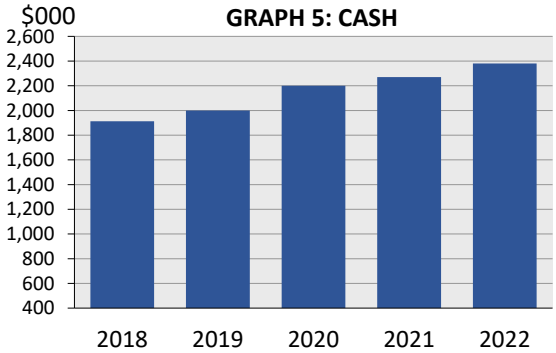
We continue to make monthly profits which are being distributed back into the community in many shapes and forms, and it is this contribution to the community that gives staff a great deal of pride and satisfaction in the role they play within your bank. We would like to acknowledge our long-serving staff for their hard work and dedication. Warren Dwyer, Michele Ferris, Vikki Atkins, Sharon Franke, Karen Chivas and Diana Smith. We have also welcomed new staff members; Kymbel Pikula (Mobile Relationship Manager – 'he comes to you!') and Customer Service Officers Hira Mughal and Ruth Maher. However, our long-serving Customer Relationship Manager Brenda Naylor has moved into a role with Bendigo and Adelaide Bank Corporate. Thank you, Brenda, for your many years of dedicated service.

Lindfield – Community Bank Branch – 10th birthday

As in previous years, KFSL's revenue is obtained from a share of the net interest rate margin earned on the company's portfolio. Interest rates continued at their historic low for most of the year which naturally affected earnings, so it is pleasing to note that FY22 operating revenue ($2.34 million) has increased in comparison to FY21 ($2.31 million). Gross Margin was steady as deposit growth offset low margin rates and a reduction in loans (see Graph 4).




The company's balance sheet remains strong, with year-end cash reserves increasing to $2.38 million (see Graph 5).




Community events continued to be affected by COVID-related restrictions thus $95,000 was transferred to the Bendigo and Adelaide Bank Community Enterprise Foundation in June 2022 for use by KFSL on community needs and engagement in future years.

Sponsored The Post's Biggest Morning

The year ahead will be challenging for the Australian economy, with the full impact of interest rate increases still to be felt. However, KFSL is fortunate that such rate changes increase our share of the net interest rate margin and thus flow through to revenue. We, therefore, look forward to being able to provide even greater support to our community in 22/23.

Martin Watkins
**Chief Executive Officer**

# Community Engagement Report

The impact of the COVID pandemic continued in this financial year as we went into lockdown in July 2020. The gradual reintroduction of face-to-face gatherings as the year has progressed has been encouraging, and has given us the confidence to plan for a major event in the coming year - Community Pitch 2022 is to be held in October 2022.

During the July lockdown we responded to the needs of the community quickly creating the 'Art in Lockdown' digital campaign for children aged between 5 and 15. Over the three weeks of the program we received 236 entries from 156 families. Each week the creator of the winning artwork not only received a prize but was also able to nominate a local charity or community group for a $1000 donation. This campaign had great appeal across all ages within our community – both those children creating the artwork and the rest of us who enjoyed viewing it on our social media.

Art in Lockdown

A more serious side of our Art in Lockdown campaign was how it highlighted that many of our youth were struggling with their mental health because of the COVID restrictions.

We reached out to KYDS Youth Development Service, a local charity that provides free one on one counselling for youth up to the age of 18, to see if we could assist in the local youth mental health space.

KYDS – Thank you breakfast

KYDS Youth Development Service's greatest need was for $75,000 in funding for an additional counsellor to combat the waiting list of up to 6 months. We launched the 'KYDS, we hear you LOUD AND CLEAR!' campaign in October as part of Mental Health month – offering to match all donations up to $37,500. We were delighted to surpass that target with our community's support raising $83,000. This allowed KYDS to employ two part time counsellors and provide an additional 900 counselling sessions over the next 12 months.

During the year, we continued to support our Community Partner, the Hornsby Ku-ring-gai Women's Shelter (HKWS) covering the interest on a $500,000 loan they used to purchase their new shelter in late 2020. We are very proud to

work with HKWS as they provide support and safe housing for women and children escaping from domestic violence and homelessness.

It was with great pleasure that on International Nurses Day we sponsored a coffee cart at Hornsby Ku-ring-gai Hospital to say thank you to the local health care workers after what has been an unprecedented couple of years.

In May, we were very excited to hold a Staff Grants Presentation Night, our first face-to-face event in two and a half years! Our 11 staff each nominated a local community group or charity for a $1000 donation and the groups shared their stories of their support of our community. Staff Grants Nights are always uplifting and I think this one was one of the greatest (perhaps a sign of how much we have all missed mixing freely with others). Our Community Bank acted as a facilitator as a many of community groups present on the night discussed plans to work together and support each other moving forward.

Staff grants – May 2022

During the year we provided financial support to 34 community groups. Our focus has continued to be on using our connections within the community to enhance the support we can provide via introductions between groups, partnering in projects, large and small, and dollar matching. While we have continued to provide sponsorship to a limited number of local community organisations; our primary focus is to create an improved outcome for the whole community which has meant an emphasis on charitable organisations.

Hornsby Woodworking Men's Shed

Over the year we contributed $96,640 to the local community in the form of grants, donations, and sponsorships. However, we were able to increase this figure to $142,140 via programs such as 'KYDS, we hear you – LOUD AND CLEAR!'

Our staff and directors have once again generously given hours of their own time during the last twelve months to support the local community.

Our cumulative contributions to local community groups, including shareholders, since the company's inception is now $3,041,503.

We look forward to a less restrictive year where we can continue to support the community, working to both strengthen our existing relationships and to make new ones.

Sharon Franke

**Community Development Manager**

# Bendigo and Adelaide Bank report

**For year ended 30 June 2022**

Community continues to be core to who we are at Bendigo and Adelaide Bank.

With your support, we are enabling community infrastructure to be built, strengthening the arts and culturally diverse communities, improving educational outcomes, and growing healthy places for Australians to live and work. On behalf of the Bank, thank you for continuing to play a vital role in supporting your community.

As we emerge from the pandemic and navigate a shifting economic landscape, the investments our Community Banks make in the future of the communities in which they operate has never been more important.

We are proud that more Australians are choosing to do their banking with Bendigo and Adelaide Bank – and importantly trust us with their financial needs. We are Australia's most trusted bank (Roy Morgan, May 2022), an outcome that you have all contributed to and should feel proud of.

Our purpose has never been more important; we remain committed to continuing to feed into the prosperity of our customers and communities, and not off them.

Your ongoing support as a shareholder is essential to the success of your local community. Together, we will continue to grow sustainably and make a positive impact for generations to come.

Warmest regards,

**Justine Minne**

**Bendigo and Adelaide Bank**

# Ku-ring-gai Financial Services Limited
# Directors' report
# 30 June 2022

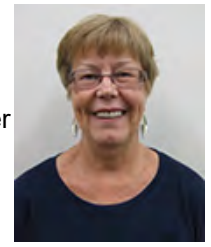
The directors present their report, together with the financial statements, on the company for the year ended 30 June 2022.

**Directors**
The following persons were directors of the company during the whole of the financial year and up to the date of this report, unless otherwise stated:

| | |
|---|---|
| Name: | **Alan James Bardwell** |
| Title: | Chair |
| Experience and expertise: | BA(Hons), CA, SFFin, GAICD. Alan has over 35 years' experience in the banking and finance industry including 16 years with Citigroup and 10 years to February 2017 as Chief Financial Officer and then Chief Risk Officer at ASX Limited. Alan is deputy Chairman of Australian Military Bank and a non-executive director of ClearView Life Nominees Pty Ltd and the Financial Services Institute of Australasia. Alan is also Chairman of the Market Supervision and Compliance Committee that advises the Board of the Sydney Stock Exchange. Alan served as Chairman of rt Health Limited and as a director of Transport Health Pty Ltd until 1 November 2021. Alan was appointed Chairman of Ku-ring-gai Financial Services Ltd in November 2016. Alan has enjoyed strong associations with local Scouts, football and bushcare groups. |
| Special responsibilities: | Member of the HR Committee and the Finance, Risk and Governance Committee. |

| | |
|---|---|
| Name: | **Sara Adams** |
| Title: | Deputy Chair |
| Experience and expertise: | GAICD. Sara has had over 24 years' experience in the ICT industry holding senior leadership roles within sales, marketing and distribution channels for companies such as Apple and Cisco. |
| Special responsibilities: | Chair of Customer and Community Committee, Member of the HR Committee |

| | |
|---|---|
| Name: | **Linda June McDonald** |
| Title: | Non-executive director |
| Experience and expertise: | BSc, AFIML, FAITD. Linda has 30 years' experience consulting to medium to large businesses in executive coaching, leadership development and team development. She works from her home in Lindfield where she has lived for over 35 years. Prior to her consulting career she held senior management roles in human resources and organisation development with large corporates in Australia and Canada. She is President of Support Lindfield, a local community group lobbying for a community hub in Lindfield and is Vice President of the North Shore Rowing Club and is a keen rower and cyclist. |
| Special responsibilities: | Chair of the HR Committee |



| | |
|---|---|
| Name: | **Christopher Bradley Williamson** |
| Title: | Non-executive director |
| Experience and expertise: | BCom. Chris brings business development, marketing and technology experience to the Board, as well as a Gen Y perspective. After working in finance and IT whilst studying for his Bachelor of Commerce majoring in Economics and Business Law at Macquarie University, Chris founded his own marketing agency based in Pymble. |
| Special responsibilities: | Member of the Finance, Risk and Governance Committee |

| | |
|---|---|
| Name: | **Himal Suneth Randeniya** |
| Title: | Non-executive director |
| Experience and expertise: | Himal is a Director of Being Early Education. His life's purpose is helping shape an extraordinary system of education that creates a powerful future for all children and students. Himal is a Director for the Being Group, Work Flows Pty Ltd, and mentor for technology start-ups through Blackbird's Startmate Accelerator. |
| Special responsibilities: | Member of the Customer and Community Committee |

## Ku-ring-gai Financial Services Limited
## Directors' report
## 30 June 2022

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

Name: **Jason Conor Grindlay**
Title: Non-executive director *(appointed 9 June 2022)*
Experience and expertise: Conor holds a Masters degree in Civil Engineering (Hons) with European Studies (Spanish) from the University of Bristol, U.K. He worked in Investment banking at Credit Suisse in London and New York before moving to the Institutional buy-side in several multi-billion dollar funds. He has invested in companies across all sectors and continents. In recent years he has invested and run private companies and this experience is particularly helpful in his role on the board at KFSL. Models that create multiplier outcomes for social good ( for example education) are a focus and the attraction of KFSL is that a profitable enterprise can create perpetual good in its local community by deploying part of its profits. A healthy KFSL means more good and impact in the communities in which it serves.
Special responsibilities: Member of Customer and Community Committee

Name: **Stephen Peter Brickett**
Title: Non-executive director *(appointed 25 July 2022)*
Experience and expertise: Based in Sydney, Stephen has over 20 years' experience in both professional services and listed global financial services organisations in South Africa, the United Kingdom and Australia. He has previously held the positions of a Division Director and Chief Accountant, leading finance functions at ASX and other listed organisations. In these roles he was responsible for overseeing numerous finance functions, including group financial (statutory, regulatory and integrated) reporting, policy and financial control and serving as a Board Director on a securitisation vehicle. Stephen is a Chartered Accountant and a member of the Australian Institute of Company Directors. Stephen lives in Turramurra and is an active member in his children's school and sporting activities.
Special responsibilities: Member of Finance, Risk & Governance Committee

Name: **Anthony Mostyn Carr**
Title: Non-executive director *(appointed 30 May 2022, resigned 29 August 2022)*
Experience and expertise: Tony Carr is a Non-Executive Director, Councillor, Treasurer, Committee Member & Chair and Director with over twenty years of board level experience across the public, commercial & not for profit sectors with expertise in Banking and Financial Services, and in addition - Local Government and Health Care industries.

Name: **Roman Zeno Tarnawsky**
Title: Non-executive director *(resigned 28 February 2022)*
Experience and expertise: GAICD, Grad.Dip.Mgmt. Admin, Dip Mechanical Engineering, Dip Civil Engineering. Roman has lived in Turramurra since 1980 and has been active in local resident groups and youth sailing programs. His 30 year career has provided experience in engineering, logistics and retail marketing, including franchising and business-to-business marketing. Roman was appointed Deputy Chairman on 1 July 2014.

Name: Rune Lykkegaard Henriksen
Title: Non-executive director *(resigned 28 December 2021)*
Experience and expertise: Rune has worked in accounting and finance for more than 25 years both in Australia and Europe with substantial experience in financial services. Rune is the Chief Operating Officer at Kennedy Partners Wealth, a boutique wealth management business. Rune holds Bachelor of Business degrees in Accounting and Business Administration and is member of the Chartered Accountants Australia & New Zealand and a Fellow Institute of Chartered Accountants in England and Wales (ICAEW). Rune also holds a Graduate Diploma of Applied Finance and is a member of the Australian Institute of Company Directors. Rune has lived in Ku-Ring-Gai since 2007 and has been involved in the local soccer club as a committee member.

Name: John Gallu
Title: Non-executive director *(resigned 28 December 2021)*
Experience and expertise: BCom, FAICD. John has had 16+ years' Banking and Insurance experience with expertise in Asset Finance, Margin Lending, Retail and Private Banking, Financial Planning and Wealth Management prior to operating his own consultancy business. John has connections in several local sporting and community groups.

Name: Amanda Faith Descoeudres
Title: Non-executive director *(resigned 25 October 2021)*
Experience and expertise: Amanda has a Bachelor of Commerce and Bachelor Arts (Asian Studies) from the Australian National University, and is a Chartered Accountant and Graduate of The Australian Institute of Company Directors. Amanda has over 25 years experience working both in professional services and in a variety of senior finance roles at ASX listed companies. She has a broad range of commercial experience having spent 12 years working in the Deals team at PwC. During this time she was involved in a range of strategic transactions from mergers and acquisitions to IPOs, restructuring and refinancing engagements. Amanda has lived in the Ku-ring-gai area since 2007 and is active in the local community, including having previously been the Treasurer of the 2nd Gordon Scout Group.

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

**Company secretary**
The Company secretary is Viktoriya Kravets. Viktoriya was appointed to the position of Company secretary on 8 February 2021.

**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 this activity during the financial year.

**Review of operations**
The profit for the company after providing for income tax amounted to $277,228 (30 June 2021: $209,912).

Operations have continued to perform in line with expectations.

**Dividends**
During the financial year, the following dividend was provided for and paid.

| | 2022<br>$ |
|---|---|
| Fully franked dividend of 6.25 cents per share (2021: 6.25 cents) | 140,693 |

**Significant changes in the state of affairs**
There were no significant changes in the state of affairs of the company during the financial year.

# Ku-ring-gai Financial Services Limited
# Directors' report
# 30 June 2022

### Matters subsequent to the end of the financial year
No matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the company's operations, the results of those operations, or the company's state of affairs in future financial 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 under Australian Commonwealth or State law.

### Meetings of directors
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 | | Finance, Risk and Governance | | Customer and Community | | HR Committee | |
|---|---|---|---|---|---|---|---|---|
| | E | A | E | A | E | A | E | A |
| Alan James Bardwell | 11 | 10 | 3 | 2 | - | - | 2 | 2 |
| Sara Adams | 11 | 8 | - | - | 11 | 10 | 2 | 1 |
| Linda June McDonald | 11 | 10 | - | - | - | - | 2 | 2 |
| Christopher Bradley Williamson | 11 | 10 | 8 | 6 | - | - | - | - |
| Himal Suneth Randeniya | 11 | 9 | - | - | 11 | 11 | - | - |
| Adrian Gordon Fong | 11 | 10 | 8 | 7 | - | - | - | - |
| Jason Conor Grindlay | 1 | 1 | - | - | 1 | 1 | - | - |
| Stephen Peter Brickett | - | - | - | - | - | - | - | - |
| Anthony Mostyn Carr | 1 | 1 | - | - | - | - | - | - |
| Roman Zeno Tarnawsky | 7 | 7 | 6 | 6 | - | - | 2 | 2 |
| Rune Lykkegaard Henriksen | 5 | 4 | 5 | 4 | - | - | - | - |
| John Gallu | 5 | 5 | - | - | 11 | 11 | - | - |
| Amanda Faith Descoeudres | 4 | 4 | 4 | 3 | - | - | - | - |

E: Eligible
A: Attended

Eligible: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

### 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.

# Ku-ring-gai Financial Services Limited
# Directors' report
# 30 June 2022

**Directors' interests**
The interest in company shareholdings for each director are:

| | Balance at the start of the year | Balance at the end of the year |
|---|---|---|
| Alan James Bardwell | 1,000 | 1,000 |
| Sara Adams | - | - |
| Linda June McDonald | 6,000 | 6,000 |
| Christopher Bradley Williamson | - | - |
| Himal Suneth Randeniya | - | - |
| Adrian Gordon Fong | - | - |
| Jason Conor Grindlay | N/A | - |
| Stephen Peter Brickett | N/A | - |
| Anthony Mostyn Carr | N/A | - |
| Roman Zeno Tarnawsky | 2,000 | N/A |
| Rune Lykkegaard Henriksen | - | N/A |
| John Gallu | - | N/A |
| Amanda Faith Descoeudres | - | N/A |

**Indemnity 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.

**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*.

**Indemnity and insurance of auditor**
The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

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

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

- all non-audit services have been reviewed by the Finance, Risk and Governance Committee to ensure they do not impact on the impartiality, integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the company, acting as an advocate for the company or jointly sharing risks and rewards.

# Ku-ring-gai Financial Services Limited
# Directors' report
# 30 June 2022

**Auditor's independence declaration**
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001.*

On behalf of the directors

Alan James Bardwell
Chair

26 September 2022

Andrew Frewin Stewart
61 Bull Street Bendigo VIC 3550

afs@afsbendigo.com.au
03 5443 0344

# Independent auditor's independence declaration under section 307C of the *Corporations Act 2001* to the Directors of Ku-Ring-Gai Financial Services Limited

As lead auditor for the audit of Ku-Ring-Gai Financial Services Limited for the year ended 30 June 2022, 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: 26 September 2022

**Joshua Griffin**
**Lead Auditor**



Liability limited by a scheme approved under Professional Standards Legislation. ABN: 65 684 604 390

## Ku-ring-gai Financial Services Limited
## Statement of profit or loss and other comprehensive income
## For the year ended 30 June 2022

| | Note | 2022<br>$ | 2021<br>$ |
|---|---|---|---|
| Revenue from contracts with customers | 7 | 2,329,095 | 2,251,041 |
| Other revenue | 8 | 7,019 | 48,269 |
| Finance revenue | | 6,351 | 13,577 |
| Total revenue | | 2,342,465 | 2,312,887 |
| Employee benefits expense | 9 | (1,031,043) | (1,058,284) |
| Advertising and marketing costs | | (105,410) | (91,894) |
| Occupancy and associated costs | | (43,619) | (49,234) |
| System costs | 9 | (85,250) | (94,639) |
| Depreciation and amortisation expense | 9 | (255,196) | (270,062) |
| Finance costs | 9 | (52,297) | (60,020) |
| General administration expenses | | (249,416) | (240,116) |
| Total expenses before community contributions | | (1,822,231) | (1,864,249) |
| **Profit before community contributions and income tax expense** | | 520,234 | 448,638 |
| Charitable donations and sponsorships expense | | (147,586) | (171,655) |
| **Profit before income tax expense** | | 372,648 | 276,983 |
| Income tax expense | 10 | (95,420) | (67,071) |
| **Profit after income tax expense for the year attributable to the ordinary shareholders of Ku-ring-gai Financial Services Limited** | 21 | 277,228 | 209,912 |
| Other comprehensive income for the year, net of tax | | - | - |
| **Total comprehensive income for the year attributable to the ordinary shareholders of Ku-ring-gai Financial Services Limited** | | 277,228 | 209,912 |
| | | **Cents** | **Cents** |
| Basic earnings per share | 29 | 12.32 | 9.32 |
| Diluted earnings per share | 29 | 12.32 | 9.32 |

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

## Ku-ring-gai Financial Services Limited
## Statement of financial position
## As at 30 June 2022

| | Note | 2022<br>$ | 2021<br>$ |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 11 | 2,379,815 | 2,268,349 |
| Trade and other receivables | 12 | 248,891 | 199,089 |
| Current tax assets | 10 | - | 10,454 |
| Total current assets | | 2,628,706 | 2,477,892 |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | 72,532 | 63,316 |
| Right-of-use assets | 14 | 933,462 | 1,131,570 |
| Intangible assets | 15 | 34,556 | 60,924 |
| Deferred tax asset | 10 | 90,300 | 95,123 |
| Total non-current assets | | 1,130,850 | 1,350,933 |
| **Total assets** | | 3,759,556 | 3,828,825 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 16 | 163,580 | 166,494 |
| Lease liabilities | 17 | 204,953 | 192,444 |
| Current tax liabilities | 10 | 26,139 | - |
| Employee benefits | 18 | 152,590 | 150,117 |
| Total current liabilities | | 547,262 | 509,055 |
| **Non-current liabilities** | | | |
| Trade and other payables | 16 | - | 30,619 |
| Lease liabilities | 17 | 829,598 | 1,034,552 |
| Employee benefits | 18 | 22,621 | 33,179 |
| Provisions | 19 | 49,355 | 47,235 |
| Total non-current liabilities | | 901,574 | 1,145,585 |
| **Total liabilities** | | 1,448,836 | 1,654,640 |
| **Net assets** | | 2,310,720 | 2,174,185 |
| **Equity** | | | |
| Issued capital | 20 | 1,258,525 | 1,258,525 |
| Retained earnings | 21 | 1,052,195 | 915,660 |
| **Total equity** | | 2,310,720 | 2,174,185 |

*The above statement of financial position should be read in conjunction with the accompanying notes*

## Ku-ring-gai Financial Services Limited
## Statement of changes in equity
## For the year ended 30 June 2022

| | Note | Issued capital $ | Retained earnings $ | Total equity $ |
|---|---|---|---|---|
| **Balance at 1 July 2020** | | 1,258,525 | 846,441 | 2,104,966 |
| Profit after income tax expense | | - | 209,912 | 209,912 |
| Other comprehensive income, net of tax | | - | - | - |
| Total comprehensive income | | - | 209,912 | 209,912 |
| *Transactions with ordinary shareholders in their capacity as ordinary shareholders:* | | | | |
| Dividends provided for | 23 | - | (140,693) | (140,693) |
| **Balance at 30 June 2021** | | 1,258,525 | 915,660 | 2,174,185 |
| **Balance at 1 July 2021** | | 1,258,525 | 915,660 | 2,174,185 |
| Profit after income tax expense | | - | 277,228 | 277,228 |
| Other comprehensive income, net of tax | | - | - | - |
| Total comprehensive income | | - | 277,228 | 277,228 |
| *Transactions with ordinary shareholders in their capacity as ordinary shareholders:* | | | | |
| Dividends provided for | 23 | - | (140,693) | (140,693) |
| **Balance at 30 June 2022** | | 1,258,525 | 1,052,195 | 2,310,720 |

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

## Ku-ring-gai Financial Services Limited
## Statement of cash flows
## For the year ended 30 June 2022

| | Note | 2022 $ | 2021 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 2,517,325 | 2,511,057 |
| Payments to suppliers and employees (inclusive of GST) | | (1,908,739) | (1,987,091) |
| | | 608,586 | 523,966 |
| Interest received | | 6,503 | 19,111 |
| Income taxes paid | | (54,004) | (68,731) |
| Net cash provided by operating activities | 28 | 561,085 | 474,346 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | (39,936) | (3,018) |
| Payments for intangible assets | | (26,368) | (26,368) |
| Net cash used in investing activities | | (66,304) | (29,386) |
| **Cash flows from financing activities** | | | |
| Dividends paid | 23 | (140,693) | (140,693) |
| Repayment of lease liabilities | 17 | (242,622) | (238,940) |
| Net cash used in financing activities | | (383,315) | (379,633) |
| Net increase in cash and cash equivalents | | 111,466 | 65,327 |
| Cash and cash equivalents at the beginning of the financial year | | 2,268,349 | 2,203,022 |
| Cash and cash equivalents at the end of the financial year | 11 | 2,379,815 | 2,268,349 |

*The above statement of cash flows should be read in conjunction with the accompanying notes*

# Ku-ring-gai Financial Services Limited
# Notes to the financial statements
# 30 June 2022

## Note 1. Reporting entity

The financial statements cover Ku-ring-gai Financial Services Limited (the company) as an individual entity which is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The company is an unlisted public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is 1273 Pacific Highway, Turramurra NSW 2074.

A description of the nature of the company's operations and its principal activity is included in the directors' report, which is not part of the financial statements.

## Note 2. Basis of preparation and statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards and Interpretations adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared on an accrual and historical cost basis and are presented in Australian dollars, which is the company's functional and presentation currency.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 26 September 2022. The directors have the power to amend and reissue the financial statements.

*Reclassifications*
Certain previously reported amounts have been reclassified to align with the manner of reporting adopted during the current year. The reclassifications had no impact to reported profit, total comprehensive income or the statement of financial position.

## Note 3. Changes in accounting policies, standards and interpretations

There are a number of amendments to accounting standards issued by the AASB that became mandatorily effective for accounting periods beginning on or after 1 July 2021, and are therefore relevant for the current financial year. The amendments did not have any impact on the amounts recognised in prior periods and did not have a material impact to the current period.

## Note 4. Significant accounting policies

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

### Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when it is held primarily for the purpose of trading and it is expected to be realised or intended to be sold or consumed in the company's normal operating cycle within 12 months after the reporting period, or the asset is cash or a cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when it is either expected to be settled in the company's normal operating cycle, it is held primarily for the purpose of trading, it is due to be settled within 12 months after the reporting period or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

## Note 4. Significant accounting policies (continued)

### Impairment

*Financial assets*

Expected credit losses (ECL) are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due and all cash flows expected to be received. At each reporting date, the entity recognises the movement in the ECL (if any) as an impairment gain or loss in the statement of profit or loss and other comprehensive income.

The company's trade receivables are limited to the monthly profit share distribution from Bendigo Bank, which is received 10 business days post month end. Due to the reliance on Bendigo Bank the company has reviewed credit ratings provided by Standard & Poor's, Moody's and Fitch Ratings to determine the level of credit exposure to the company. The company also performed a historical assessment of receivables from Bendigo Bank and found no instances of default. As a result no ECL has been made in relation to trade receivables as at 30 June 2022.

*Non-financial assets*

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

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

### Goods and Services Tax (GST)

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

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

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

## Note 5. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events that it believes to be reasonable under the circumstances. Differences between the accounting judgements and estimates and actual results and outcomes are accounted for in future reporting periods. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

*Coronavirus (COVID-19) pandemic*

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the company based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the company operates. There does not currently appear to be either any significant impact on the financial statements or any significant uncertainties with respect to events or conditions which may impact the company unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

## Note 5. Critical accounting judgements, estimates and assumptions (continued)

*Estimation of useful lives of assets*
The company determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives or assets that have been abandoned or sold will be written off or written down.

*Impairment of non-financial assets*
The company assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the company and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined as the higher of its fair value less costs of disposal or value-in-use, each of which incorporate a number of key estimates and assumptions.

*Recovery of deferred tax assets*
Deferred tax assets are recognised for deductible temporary differences only if the company considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

*Lease term*
The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. The company reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

*Incremental borrowing rate*
Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the company estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

*Employee benefits provision*
The liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and inflation have been taken into account.

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.

*Lease make good provision*
A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

## Note 6. Economic dependency

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

### Note 6. Economic dependency (continued)

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 borne by Bendigo Bank as long as the company has complied with the appropriate procedures and relevant obligations and has not exercised a discretion in granting or extending credit.

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

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

### Note 7. Revenue from contracts with customers

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Margin income | 2,004,006 | 2,038,118 |
| Fee income | 101,700 | 109,954 |
| Commission income | 223,389 | 102,969 |
| Revenue from contracts with customers | 2,329,095 | 2,251,041 |

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:

### Note 7. Revenue from contracts with customers (continued)

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

*Revenue calculation*
The franchise agreement provides that three forms of revenue may be earned by the company which are 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, interest rates and funds transfer pricing and other factors, such as economic and local conditions.

*Margin*
Margin on core banking products 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 Bendigo Bank to fund a loan. |

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

*Commission*
Commission revenue is generated from the sale of products and services. 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 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 the company receives. The reasons it may make a change include changes in industry or economic conditions or changes in the way Bendigo Bank earns revenue.

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

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

## Note 8. Other revenue

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Market development fund | - | 3,750 |
| Cash flow boost | - | 37,500 |
| Sub-leasing income | 7,019 | 7,019 |
| Other revenue | 7,019 | 48,269 |

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.

All revenue is stated net of the amount of GST.

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

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

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

## Note 9. Expenses

### Employee benefits expense

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Wages and salaries | 830,963 | 867,003 |
| Non-cash benefits | 748 | - |
| Superannuation contributions | 86,386 | 88,684 |
| Expenses related to long service leave | 12,614 | (4,805) |
| Other expenses | 100,332 | 107,402 |
| | 1,031,043 | 1,058,284 |

### Expenses relating to low-value leases

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Expenses relating to low-value leases | 33,858 | 37,549 |

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

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

## Note 9. Expenses (continued)

### Depreciation and amortisation expense

| | 2022 $ | 2021 $ |
|---|---|---|
| *Depreciation of non-current assets* | | |
| Leasehold improvements | 23,273 | 40,874 |
| Furniture and fittings | 4,858 | 6,017 |
| Motor vehicles | 2,589 | - |
| | 30,720 | 46,891 |
| *Depreciation of right-of-use assets* | | |
| Leased land and buildings | 198,108 | 196,803 |
| *Amortisation of intangible assets* | | |
| Franchise fee | 4,395 | 4,395 |
| Franchise renewal process fee | 21,973 | 21,973 |
| | 26,368 | 26,368 |
| | 255,196 | 270,062 |

### Finance costs

| | 2022 $ | 2021 $ |
|---|---|---|
| Lease interest expense | 50,177 | 57,990 |
| Unwinding of make-good provision | 2,120 | 2,030 |
| | 52,297 | 60,020 |

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

## Note 10. Income tax

| | 2022 $ | 2021 $ |
|---|---|---|
| *Income tax expense* | | |
| Current tax | 90,597 | 64,783 |
| Movement in deferred tax | 4,823 | (62) |
| Reduction in company tax rate | - | 3,805 |
| Adjustment recognised for prior periods | - | (1,455) |
| Aggregate income tax expense | 95,420 | 67,071 |
| *Prima facie income tax reconciliation* | | |
| Profit before income tax expense | 372,648 | 276,983 |
| Tax at the statutory tax rate of 25% (2021: 26%) | 93,162 | 72,016 |
| Tax effect of: | | |
| Non-deductible expenses | 2,258 | 2,455 |
| Non-assessable income | - | (9,750) |
| Reduction in company tax rate | - | 3,805 |
| | 95,420 | 68,526 |
| Adjustment to deferred tax balances as a result of change in statutory tax rate | - | (1,455) |
| Income tax expense | 95,420 | 67,071 |

Effective tax rate is 25.6% (2021: 24.2%)

| | 2022 $ | 2021 $ |
|---|---|---|
| *Deferred tax assets/(liabilities)* | | |
| Property, plant and equipment | 4,026 | 7,071 |
| Employee benefits | 48,133 | 51,934 |
| Lease liabilities | 258,638 | 306,749 |
| Provision for lease make good | 12,339 | 11,809 |
| Income accruals | (460) | (497) |
| Right-of-use assets | (233,366) | (282,893) |
| Expense accuals | 990 | 950 |
| Deferred tax asset | 90,300 | 95,123 |

| | 2022 $ | 2021 $ |
|---|---|---|
| Income tax refund due | - | 10,454 |

| | 2022 $ | 2021 $ |
|---|---|---|
| Provision for income tax | 26,139 | - |

*Accounting policy for income tax*
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

## Note 10. Income tax (continued)

*Accounting policy for current 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.

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

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

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

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

## Note 11. Cash and cash equivalents

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Cash on hand | 400 | 139 |
| Cash at bank | 613,228 | 502,023 |
| Term deposits | 1,766,187 | 1,766,187 |
| | 2,379,815 | 2,268,349 |

*Accounting policy for cash and cash equivalents*
For the purposes of the Statement of Financial Position and Statement of Cash Flows, cash and cash equivalents comprise cash on hand and deposits held with banks.

## Note 12. Trade and other receivables

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Trade receivables | 239,790 | 187,391 |
| Accrued income | 1,838 | 1,989 |
| Prepayments | 7,263 | 9,709 |
| | 9,101 | 11,698 |
| | 248,891 | 199,089 |

*Accounting policy for trade and other receivables*
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses (where applicable).

## Note 13. Property, plant and equipment

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Leasehold improvements - at cost | 420,929 | 408,044 |
| Less: Accumulated depreciation | (395,032) | (371,759) |
| | 25,897 | 36,285 |
| Furniture and fittings - at cost | 94,838 | 94,593 |
| Less: Accumulated depreciation | (72,420) | (67,562) |
| | 22,418 | 27,031 |
| Motor vehicles - at cost | 26,806 | - |
| Less: Accumulated depreciation | (2,589) | - |
| | 24,217 | - |
| | 72,532 | 63,316 |

Reconciliations of the carrying values at the beginning and end of the current and previous financial year are set out below:

| | Leasehold improvements<br>$ | Furniture and fittings<br>$ | Motor vehicle<br>$ | Total<br>$ |
|---|---|---|---|---|
| Balance at 1 July 2020 | 74,379 | 32,809 | - | 107,188 |
| Additions | 2,780 | 239 | - | 3,019 |
| Depreciation | (40,874) | (6,017) | - | (46,891) |
| Balance at 30 June 2021 | 36,285 | 27,031 | - | 63,316 |
| Additions | 12,885 | 245 | 26,806 | 39,936 |
| Depreciation | (23,273) | (4,858) | (2,589) | (30,720) |
| Balance at 30 June 2022 | 25,897 | 22,418 | 24,217 | 72,532 |

*Accounting policy for property, plant and equipment*
Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

| | |
|---|---|
| Leasehold improvements | 4 to 10 years |
| Furniture and fittings | 1 to 40 years |
| Motor vehicle | 4 years |

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is the shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the company. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

*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

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Land and buildings | 1,523,141 | 1,523,141 |
| Less: Accumulated depreciation | (589,679) | (391,571) |
| | 933,462 | 1,131,570 |

Reconciliations of the carrying values at the beginning and end of the current and previous financial year are set out below:

| | Land and buildings<br>$ |
|---|---|
| Balance at 1 July 2020 | 1,308,680 |
| Remeasurement adjustments | 19,693 |
| Depreciation expense | (196,803) |
| Balance at 30 June 2021 | 1,131,570 |
| Depreciation expense | (198,108) |
| Balance at 30 June 2022 | 933,462 |

*Accounting policy for right-of-use assets*
A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

Refer to note 17 for more information on lease arrangements.

### Note 15. Intangible assets

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Franchise fee | 118,992 | 118,992 |
| Less: Accumulated amortisation | (113,231) | (108,836) |
| | 5,761 | 10,156 |
| Franchise renewal fee | 244,949 | 244,949 |
| Less: Accumulated amortisation | (216,154) | (194,181) |
| | 28,795 | 50,768 |
| | 34,556 | 60,924 |

### Note 15. Intangible assets (continued)

Reconciliations of the carrying values at the beginning and end of the current and previous financial year are set out below:

| | Franchise fee $ | Franchise renewal fee $ | Total $ |
|---|---|---|---|
| Balance at 1 July 2020 | 14,551 | 72,741 | 87,292 |
| Amortisation expense | (4,395) | (21,973) | (26,368) |
| Balance at 30 June 2021 | 10,156 | 50,768 | 60,924 |
| Amortisation expense | (4,395) | (21,973) | (26,368) |
| Balance at 30 June 2022 | 5,761 | 28,795 | 34,556 |

*Accounting policy for intangible assets*
Intangible assets of the company relate to the franchise fees paid to Bendigo Bank which conveys the right to operate the Community Bank franchise.

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

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

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

| Asset class | Method | Useful life | Expiry/renewal date |
|---|---|---|---|
| Franchise Fee | Straight-line | Over the franchise term (5 years) | October 2023 |
| Franchise renewal process fee | Straight-line | Over the franchise term (5 years) | October 2023 |

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

*Change 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. Trade and other payables

| | 2022 $ | 2021 $ |
|---|---|---|
| *Current liabilities* | | |
| Trade payables | 17,274 | 25,396 |
| Other payables and accruals | 146,306 | 141,098 |
| | 163,580 | 166,494 |
| *Non-current liabilities* | | |
| Other payables and accruals | - | 30,619 |

*Accounting policy for trade and other payables*
These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

### Note 16. Trade and other payables (continued)

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

### Note 17. Lease liabilities

| | 2022 $ | 2021 $ |
|---|---|---|
| *Current liabilities* | | |
| Land and buildings lease liabilities | 246,413 | 242,620 |
| Unexpired interest | (41,460) | (50,176) |
| | 204,953 | 192,444 |
| *Non-current liabilities* | | |
| Land and buildings lease liabilities | 908,249 | 1,154,662 |
| Unexpired interest | (78,651) | (120,110) |
| | 829,598 | 1,034,552 |

*Reconciliation of lease liabilities*

| | 2022 $ | 2021 $ |
|---|---|---|
| Opening balance | 1,226,996 | 1,388,250 |
| Remeasurement adjustments | - | 19,696 |
| Lease interest expense | 50,177 | 57,990 |
| Lease payments - total cash outflow | (242,622) | (238,940) |
| | 1,034,551 | 1,226,996 |

*Maturity analysis*

| | 2022 $ | 2021 $ |
|---|---|---|
| Not later than 12 months | 246,413 | 242,620 |
| Between 12 months and 5 years | 783,544 | 913,769 |
| Greater than 5 years | 124,705 | 240,893 |
| | 1,154,662 | 1,397,282 |

*Accounting policy for 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.

Lease payments included in the measurement of the lease liability comprise fixed lease payments and lease payments in a renewal option if the company is reasonably certain to exercise that option. For leases of property the company has elected not to separate lease and non-lease components when calculating the lease liability.

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

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if the company changes its assessment of whether it will exercise an extension option.

### Note 17. Lease liabilities (continued)

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

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

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

The company's lease portfolio includes:

| | |
|---|---|
| Lindfield branch | The lease agreement commenced in December 2015. A 5 year renewal option was exercised in December 2020. The company has no renewal option available in the current lease agreement, thus the lease term end date used in the calculation of the lease liability is November 2025. The discount rate used in lease liability calculations is 4.40%. |
| Turramurra branch | The lease agreement commenced in August 2018 for a 5 year term. The company has a 5 year renewal option available which they are reasonably certain to exercise. As such, the lease term end date used in the calculation of the lease liability is August 2028. The discount rate used in lease liability calculations is 4.40%. |

### Note 18. Employee benefits

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| *Current liabilities* | | |
| Annual leave | 86,470 | 92,862 |
| Long service leave | 66,120 | 57,255 |
| | 152,590 | 150,117 |
| *Non-current liabilities* | | |
| Long service leave | 22,621 | 33,179 |

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

An annual leave liability is recognised for the amount expected to be paid if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated. The company's obligations for short-term employee benefits such as salaries and wages are recognised as part of current trade and other payables in the statement of financial position. The company's obligations for employees' annual leave and long service leave entitlements are recognised in employee benefits in the statement of financial position. Consideration is given to expected future wage and salary levels plus related on-costs.

*Superannuation contributions*
Contributions to superannuation plans are expensed in the period in which they are incurred.

*Short-term employee benefits*
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

## Note 18. Employee benefits (continued)

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

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

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

## Note 19. Provisions

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Lease make good | 49,355 | 47,235 |

*Lease make good*
In accordance with the branch lease agreements, the company must restore the leased premises to their original condition before the expiry of the lease term. The company has estimated the provision based on the expected future costs to remove all fittings and the ATM as well as the cost to remedy any damages caused during the removal process. The leases are due to expire as follows at which time it is expected the costs to restore the premises will fall due.

| Lease | Lease term expiry date per AASB 16 | Estimated provisions |
|---|---|---|
| Lindfield | November 2025 | $35,000 |
| Turramurra | August 2028 | $25,200 |

*Accounting policy for provisions*
Provisions are recognised when the company has a present (legal or constructive) obligation as a result of a past event, it is probable the company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. The provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

## Note 20. Issued capital

| | 2022<br>Shares | 2021<br>Shares | 2022<br>$ | 2021<br>$ |
|---|---|---|---|---|
| Ordinary shares - fully paid | 1,326,925 | 1,326,925 | 1,326,925 | 1,326,925 |
| Bonus shares (1:1) | 924,160 | 924,160 | - | - |
| Less: Equity raising costs | - | - | (68,400) | (68,400) |
| | 2,251,085 | 2,251,085 | 1,258,525 | 1,258,525 |

*Accounting policy for issued capital*
Ordinary shares are recognised at the fair value of the consideration received by the company being $1 per share. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

***Rights attached to issued capital***

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

**Note 20. Issued capital (continued)**

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

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

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

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"), being 343. As at the date of this report, the company had 486 shareholders (2021: 489 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) has 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 21. Retained earnings

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Retained earnings at the beginning of the financial year | 915,660 | 846,441 |
| Profit after income tax expense for the year | 277,228 | 209,912 |
| Dividends paid (note 23) | (140,693) | (140,693) |
| Retained earnings at the end of the financial year | 1,052,195 | 915,660 |

## Note 22. Capital management

The Board's policy is to maintain a strong capital base so as to sustain future development of the company. The Board monitors 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:

- 20% of the profit or funds of the company otherwise available for distribution to shareholders in that 12 month period; and
- 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 sponsorships. Charitable donations and sponsorships paid for the financial year 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 23. Dividends

The following dividends were provided for and paid to shareholders during the financial year as presented in the Statement of changes in equity and Statement of cash flows.

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Fully franked dividend of 6.25 cents per share (2021: 6.25 cents) | 140,693 | 140,693 |

### Franking credits

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Franking account balance at the beginning of the financial year | 488,324 | 469,026 |
| Franking credits arising from income taxes paid | 54,004 | 68,731 |
| Franking debits from the payment of franked distributions | (46,898) | (49,433) |
| | 495,430 | 488,324 |
| *Franking transactions that will arise subsequent to the financial year end:* | | |
| Balance at the end of the financial year | 495,430 | 488,324 |
| Franking credits (debits) that will arise from payment (refund) of income tax | 26,139 | (10,454) |
| Franking credits available for future reporting periods | 521,569 | 477,870 |

**Note 23. Dividends (continued)**

The ability to utilise franking credits is dependent upon the company's ability to declare dividends. The tax rate at which future dividends will be franked is 25%.

*Accounting policy for dividends*
Dividends are recognised in the financial year they are declared.

**Note 24. Financial instruments**

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| **Financial assets** | | |
| Trade and other receivables | 241,628 | 189,380 |
| Cash and cash equivalents | 2,379,815 | 2,268,349 |
| | 2,621,443 | 2,457,729 |
| **Financial liabilities** | | |
| Trade and other payables | 163,580 | 197,113 |
| Lease liabilities | 1,034,551 | 1,226,996 |
| | 1,198,131 | 1,424,109 |

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

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

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

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.

***Financial risk management***
The company has exposure to credit, liquidity and market risk arising from financial instruments. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the company. The company does not use derivative instruments. The implementation and management of the Board's risk policy has been delegated to the company's Senior Branch Manager. The Board monitors compliance with this Policy to ensure that risks are appropriately mitigated.

***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.

## Note 24. Financial instruments (continued)

Interest-bearing assets are held with Bendigo Bank in both fixed rate term ($1,766,187 (2021: $1,766,187)) and variable rate products ($613,228 (2021: $502,023)). The balances held in fixed rate term products are subject to changes in market interest rates following the expiry and re-investment of those balances, whilst the balances held in variable rate products are subject to changes in variable market interest rates.

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

The company's franchise agreement limits the company's credit exposure to one financial institution, being Bendigo Bank with which it held cash and cash equivalents and term deposits of $2,379,815 at 30 June 2022 (2021: $2,268,349). Bendigo Bank is rated BBB+ on Standard & Poor's credit ratings.

***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.

*Exposure to liquidity risk*
The following are the remaining contractual maturities of financial liabilities. The contractual cash flow amounts are gross and undiscounted and therefore may differ from their carrying amount in the statement of financial position.

| 2022 | 1 year or less $ | Between 1 and 5 years $ | Over 5 years $ | Remaining contractual maturities $ |
|---|---|---|---|---|
| Trade and other payables | 163,580 | - | - | 163,580 |
| Lease liabilities | 246,413 | 783,544 | 124,705 | 1,154,662 |
| Total non-derivatives | 409,993 | 783,544 | 124,705 | 1,318,242 |

| 2021 | 1 year or less $ | Between 1 and 5 years $ | Over 5 years $ | Remaining contractual maturities $ |
|---|---|---|---|---|
| Trade and other payables | 166,494 | 30,619 | - | 197,113 |
| Lease liabilities | 242,620 | 913,769 | 240,893 | 1,397,282 |
| Total non-derivatives | 409,114 | 944,388 | 240,893 | 1,594,395 |

## Note 25. Key management personnel disclosures

The following persons were directors of Ku-ring-gai Financial Services Limited during the financial year and/or up to the date of signing of these Financial Statements.

Alan James Bardwell
Sara Adams
Linda June McDonald
Christopher Bradley Williamson
Himal Suneth Randeniya
Adrian Gordon Fong
Jason Conor Grindlay
Stephen Peter Brickett
Anthony Mostyn Carr
Roman Zeno Tarnawsky
Rune Lykkegaard Henriksen
John Gallu
Amanda faith Descoeudres

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 26. Related party transactions

*Transactions with related parties*
There were no transactions with related parties during the current or previous financial year.

## Note 27. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Andrew Frewin Stewart, the auditor of the company:

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| *Audit services* | | |
| Audit or review of the financial statements | 6,400 | 5,700 |
| *Other services* | | |
| Taxation advice and tax compliance services | 600 | 600 |
| General advisory services | 2,350 | 1,690 |
| Share registry services | 8,173 | 6,499 |
| Valuation services | 2,500 | - |
| | 13,623 | 8,789 |
| | 20,023 | 14,489 |

## Note 28. Reconciliation of profit after income tax to net cash provided by operating activities

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Profit after income tax expense for the year | 277,228 | 209,912 |
| Adjustments for: | | |
| Depreciation and amortisation | 255,196 | 270,062 |
| Lease liabilities interest | 50,177 | 57,990 |
| Change in operating assets and liabilities: | | |
| Increase in trade and other receivables | (49,802) | (7,916) |
| Decrease in income tax refund due | 10,454 | - |
| Decrease/(increase) in deferred tax assets | 4,823 | (3,126) |
| Decrease in trade and other payables | (7,165) | (8,143) |
| Increase in provision for income tax | 26,139 | - |
| Decrease in employee benefits | (8,085) | (46,463) |
| Increase in other provisions | 2,120 | 2,030 |
| Net cash provided by operating activities | 561,085 | 474,346 |

## Note 29. Earnings per share

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Profit after income tax attributable to the ordinary shareholders of Ku-ring-gai Financial Services Limited | 277,228 | 209,912 |

### Note 29. Earnings per share (continued)

| | Number | Number |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic earnings per share | 2,251,085 | 2,251,085 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 2,251,085 | 2,251,085 |

| | Cents | Cents |
|---|---|---|
| Basic earnings per share | 12.32 | 9.32 |
| Diluted earnings per share | 12.32 | 9.32 |

*Accounting policy for earnings per share*
Basic and diluted earnings per share is calculated by dividing the profit attributable to the ordinary shareholders of Ku-ring-gai Financial Services Limited by the weighted average number of ordinary shares outstanding during the financial year.

### Note 30. Commitments

The company has no commitments contracted for, other than reflected in the financial statements.

### Note 31. Contingencies

There were no contingent liabilities or contingent assets at the date of this report.

### Note 32. Events after the reporting period

No matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the company's operations, the results of those operations, or the company's state of affairs in future financial years.

## Ku-ring-gai Financial Services Limited
## Directors' declaration
## 30 June 2022

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in the notes to the financial statements;
- the attached financial statements and notes give a true and fair view of the company's financial position as at 30 June 2022 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors

Alan James Bardwell
Chair

26 September 2022

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

# Independent auditor's report to the Directors of Ku-Ring-Gai Financial Services Limited

## Report on the Audit of the Financial Report

## Opinion

We have audited the financial report of Ku-Ring-Gai Financial Services Limited's (the company), which comprises:

- Statement of financial position as at 30 June 2022
- Statement of profit or loss and other comprehensive income
- Statement of changes in equity
- Statement of cash flows
- Notes to the financial statements, including a summary of significant accounting policies
- The directors' declaration of the company.

In our opinion, the accompanying financial report of Ku-Ring-Gai Financial Services Limited, is in accordance with the *Corporations Act 2001*, including:

i. giving a true and fair view of the company's financial position as at 30 June 2022 and of its financial performance for the year ended on that date; and
ii. complying with Australian Accounting Standards and the Corporations Regulations 2001.

## Basis for Opinion

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

We are independent of the company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.


Liability limited by a scheme approved under Professional Standards Legislation. ABN: 65 684 604 390

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## Other Information

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

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

Our opinion on the financial report does not cover the other information and accordingly we will not express any form of assurance conclusion thereon.

Our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If we identify that a material inconsistency appears to exist when we read the annual report (or become aware that the other information appears to be materially misstated), we will discuss the matter with the directors and where we believe that a material misstatement of the other information exists, we will request management to correct the other information.

## Responsibilities of the Directors for the Financial Report

The directors of the company are responsible for the preparation of the financial report that it gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatement can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.


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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

**Andrew Frewin Stewart**
61 Bull Street, Bendigo, Vic, 3550
Dated: 26 September 2022

**Joshua Griffin**
**Lead Auditor**



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