



annual report **2012**

Redlands Community
Financial Services Limited

ABN 52 116 190 875

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Chairman's report

For year ending 30 June 2012

Redlands Community Financial Services Ltd acknowledges, recognises and respects the cultural rights and responsibilities of the Quandamooka elders and people as the region's 'traditional' owners.

Dear Shareholders,

Every year when I sit down to write this report I face a challenge between my head and my heart. I write as the Chairman of a public company and my head says I should write formally, include commentary on respective trends, look back to look forward and include high level statements that describe the performance of our company, our people; and significant points within the report. My heart says I should write more about our people and our work and I know that will not adequately describe the financial results and outlook to you; our shareholders.

As a **Community Bank**[®] branch, if we truly apply and live by the model, our results will not be measured by or stated as numbers. We spent time this year discussing alternative measures of success. Looking back over time we could see growth and change and being at the core of most of the change; and as time has passed so quickly; it was good to take stock. By September 2008 our contribution to community in dollar terms was less than \$1,000 and we had made a difference here and there with our support, our knowledge and our quiet encouragement. By July of this year our contribution to the community as financial support; donations and grants, interest on community sector accounts and dividends exceeded \$300,000. Our customer numbers show we are a wanted business in Redland City. We discovered as a most pleasant surprise that other groups and individuals champion our cause on their own initiative and we realised people call us to partner them.

Previous Annual Reports have briefly described our challenges. We seemed to have, time and again, been delivered the toughest of obstacles **Community Bank**[®] branches face. Taking stock this year also showed us; staff and Board; that because we believe absolutely in the model, believe and trust in each other and in our ability to find a balance between leading with our heart and being a leading business; and because we have successfully faced and overcome our challenges; we have achieved something quite special.

Behind the scenes is a group of dedicated and committed people who love their work and enjoy spending time in the community. When they are away on leave they miss us. Collectively they are high achievers and their efforts are recognised nationally. As one of 300 **Community Bank**[®] branches our innovations have been welcomed and applied or enhanced widely. We put all our energies in to our **Community Bank**[®] branch and our contribution to the broader **Community Bank**[®] network is not something we consciously strive for; it's a result unexpected and is another measure of our success.

Our staff; led by Justine are a truly amazing group. Their dedication, perseverance and commitment is recognised day after day after day. They find a natural balance between a professional approach and an ability to just be themselves. Their work is the difference between 2008 and 2012 and instead of patting themselves on the back, they simply acknowledge their work is true, makes a difference and then get on with their day.

Financially we have had a great year. What we are trying to do is be our best transaction by transaction, day by day, week to week and so on. By focusing on our performance and how we commit with each transaction or interaction we are; to use coaching terminology; concentrating on how we play and letting the scoreboard take care of itself. Consistent and honest efforts have again brought constant reward. The passion for our little 'gem' of a **Community Bank**[®] branch and the drive to make our business successful is evident in everything we do. Our success has been recognised by peers and Bendigo and Adelaide Bank.

Of course this is hardly of any importance when I recognise the dedication, commitment, the strength and leadership resulting in an exceptional performance by Justine. At the time of writing we are likely to win our third Branch of the Year award. This outcome is unmatched and will be Justine's sixth in a row!

Chairman's report (continued)

At last years AGM it was great to see more shareholders attend. I very much appreciate that you felt strongly enough to deliver two clear messages. Firstly; payment of dividends was a firm expectation and secondly, you recognised and congratulated us for our community support and activity and you wanted us to find ways to tell you about what we do in the community. I am pleased to advise we have acquitted both.

Our very first dividend was paid on 20 April 2012 for the previous financial year; a fantastic milestone for our company. Secondly we have developed a monthly e-newsletter distributed electronically. The newsletter is mostly about our community work with just a sprinkling of branch or process articles. Lastly we developed our own Facebook page and we are on Twitter.

Now to the figures. Firstly; exceeding our budgeted income provided an opportunity to write off or 'scrap' some of the older assets. By December 2011, just under \$25,000 was written off. Although this looks like an expense in the report and reduces the net profit, writing off assets where possible gives us all a clearer picture of our solvency and will in coming years, help to remove some of the accounting 'cloud' from the profit and loss figures; less adjustments.

Once again this year we have increased our income without significantly increasing expenses. We have also paid off our loan for the franchise agreement and security renovations.

Secondly; in what on balance continues to be a tough climate for small business, there must be recognition of our comparatively strong performance. We have increased our staff numbers and hours, we have exceeded budget, continued to strengthen our position in the business community and community at-large and, have continued to be recognised by peer branches, staff and Bendigo and Adelaide Bank itself as innovators and high achievers.

Our top three priorities remain the same;

1. Honour those who gave us the opportunity to establish the **Community Bank**[®] branch
2. Underpin the strength of the business and
3. Improve our visibility through marketing and greater community contributions.

In terms of visibility, we now appear on other organisations web pages, we have advertisements on BAY FM, we have been in the newspapers more and more and have significantly increased our attendance at and support for community events, and, we have more than doubled the number of people in the distribution list of our monthly 'e' newsletter.

In terms of governance, our audit results both from a company and operational branch perspective are sound and against a basic risk profile the lack of 'findings' is reassuring. In terms of confidence in us as a business or partner; we have once again significantly increased our customer base and whilst doing so, have increased our products per customer. This is difficult to do, something we use as a core measure of performance and is a source of pride.

At the time of writing our Board members are;

Chairman – Garry White

Secretary – Fred Powers

Vice Chairman – Ann Reed

Director – Arnal Chand

Director – Merijn de Kruijf

Director – Kelly-Jade Sandes

In summary

Each year seems to bring greater challenge and each year certainly brings greater reward. I am so very proud of our **Community Bank**[®] branch and each day I am so very grateful to have had the opportunity to walk in life with Justine, Michele, our staff and our Board. I am almost lost for words when Justine calls me on her way home from a community event, excitedly telling me of her day and of the 'light-bulb' moments when others "get it". It's energising. To have Justine at the emotional edge where the parents cry, or the students gasp, or the community group's stress is instantly relieved, is the very best we could ever hope for.

Chairman's report (continued)

The energy created by Justine, Michele and our staff is contagious and generates business of the heart, mind and of the banking kind.

There is one more person who shareholders do not see and who has been a long-term reliable and trustworthy partner and deserves recognition after working hard for us in the background. Mark Lally is the Bendigo and Adelaide Bank Regional Manager. Mark is a man of integrity. His knowledge is invaluable. Mark is very clear on the boundaries and overlaps of Bendigo Bank and **Community Bank**[®] model, processes and needs. Mark allows us to push boundaries; he welcomes change and encourages us to continually question our outcomes. Our current positive context is a direct result of his drive, patience, support of and commitment to, the **Community Bank**[®] model.

This likely reads as though I think we have made it. That is not the case of course and your Board and I know there is much to do. We must continue to serve, maintain growth, adapt to new methods, new software, new staff and Directors as we all rotate. We must for ourselves discover, what banking will 'look like' in 15 years time and make sure we are ready. The Board will meet again in January to review our priorities, performance, our strengths and weaknesses. The outcome will be a revised business plan for the 2013 – 2018 period.

The Victoria Point **Community Bank**[®] Branch is becoming a most important asset in and for Redland City. Fellow shareholders; I ask you to take any and every opportunity to champion the cause of Victoria Point **Community Bank**[®] Branch; and where possible; please bank with us too.

Yours faithfully,



Garry White
Chairman

Manager's report

For year ending 30 June 2012

I am pleased to provide my third annual report as Manager of Victoria Point **Community Bank**[®] Branch. From my perspective June 2012 marks the end of another fantastic year. The work of our branch last year, like our people, has been truly spectacular.

The 2011/12 summary;

- Total lending approved: \$12.632 million
- Total lending applications: 77
- Total loans settled: \$12.673 million
- Loan growth budget \$5 million: Achieved \$8.849 million
- Deposit growth budget \$3.5 million: Achieved \$4.425 million
- Total footings growth forecast \$8.5 million: Achieved \$13.774 million
- Insurance budget 84: Achieved 89
- Merchant budget 12: Achieved 28
- Financial planning budget 24: Achieved 38
- Increased products per customer
- Achieved margin income budget
- More than doubled our profit budget
- Underspent on expenses
- Increased total business size from \$54 million to just over \$68.4 million
- Out of 97 Queensland branches we are in the top 3 for CSB accounts.

As you know I am a great advocate for the **Community Bank**[®] model; we put priority on people not their assets and outcomes before incomes. This type of innovative model cannot be done without a strong team from top to bottom; ie the support of the Board in advocating the benefits of face-to-face banking services for our local community; and staff that continue to use these services to make tremendous social and economic contributions through the **Community Bank**[®] model for our local community.

Some of you will know that I had the opportunity to discuss the Victoria Point **Community Bank**[®] Branch with Bendigo Bank staff and Managers this year. Many commented how lucky we are to have a great and supportive Board of Directors and great staff. Both of these are true, but those who know the history of our branch know that such comments don't truly reflect the hard work that our people have done and continue to do every day.

I was asked, "What is the difference in the Victoria Point **Community Bank**[®] Branch?" I know I say this every time; I truly believe that we always take a "People Matter – on both sides of the counter" approach. The People matter approach has at its core four underlying values of:

- People Matter – more than their assets
- People Matter – in maximising opportunities
- People Matter – as enablers
- People Matter – in everything we do

This approach is the difference; it is where we walk beside the customer in the journeys they are taking, not just their financial but also their educational, family and social journeys. These journeys are demonstrated by the partnerships we grow, the support we provide and these journeys don't always happen during working hours. 2011/12 like years

Manager's report (continued)

before; has seen staff community involvement outside working hours, in things such as school functions, canteen duty, Island visits, reward nights and many others. During last year the branch attended and supported over 162 community events equating to just over three per week. We do this because people and their journeys matter, regardless of what the journey is or where or when it takes place.

Once again I would like to thank our families, for supporting us in doing what we love. Hard work should not be confused with luck, simplicity should not be confused with simplistic and we should not confuse outcomes with incomes. Why? Because People Matter – on both sides of the counter.

A special thank you to my husband Darran for his support and contribution.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Justine Kennedy', with a long horizontal stroke extending to the right.

**Justine Kennedy,
Branch Manager**

Directors' report

For the financial year ended 30 June 2012

Your directors submit the financial statements of the company for the financial year ended 30 June 2012.

Directors

The names and details of the company's directors who held office during or since the end of the financial year:

Garry Francis White

Chairman

Age: 52

Air Traffic Service Officer

Garry has been volunteering for 34 years with various community groups including 23 years with Redlands Netball Association holding various executive positions. Garry is experienced in risk assessment and governance.

Special responsibilities: Audit sub-committee.

Interest in shares: 10,003

Frederick James Powers

Secretary/Treasurer

Age: 66

Retired

Fred is a Fellow, Institute of Public Accountants; Associate, Chartered Institute Secretaries. Fred also is a small business proprietor (TAX Agency)

Special responsibilities: Company Secretary, Treasurer; HR committee.

Interest in shares: Nil

Ann Constance Reed

Director

Age: 63

Company Director

Ann holds a Cert IV Business, B Ed, Dip Ed. Ann has a broad and significant history as a volunteer with various organizations including Red Cross, Girl Guides, Lions, Crime Stoppers and S.H.A.R.E. Police holding various committee positions.

Special responsibilities: HR committee.

Interest in shares: Nil

Arnal Pravikash Chand

Director

Age: 19

University Student

Arnal was the Victoria Point High School DUX in 2009, volunteers as a tutor and electoral volunteer and is studying Law and Business at University.

Special responsibilities: Marketing sub-committee.

Interest in shares: Nil

Merijn Leonardus Cornelis de Kruijf

Director

Age: 28

Business Banker

Merijn owned/managed small I.T. company; he is completing a bachelor degree in Commerce at Griffith University (finance and economics). He President of Griffith Finance Society; employed part time role as a Business Banking Assistant with Bendigo Bank; has a passion for banking; is particularly focused on quality and community focused services from the banking sector.

Special responsibilities: Marketing committee.

Interest in shares: Nil

Kelly-Jade Sandes

Director (Appointed 22 September 2011)

Age: 22

University Student

Kelly has bookkeeping/ trainee accountant experience at RTS. She also has involvement with the Cancer Council Foundation, Leukemia Foundation as well as a number of local sporting clubs

Special responsibilities: Marketing sub-committee.

Interest in shares: Nil

Directors' report (continued)

Directors (continued)

James Andrew McNamara

Director (Appointed 26 July 2012)

Age: 40

Special responsibilities:

Interest in shares: Nil

Stefan Peter Floratos

Director (Appointed 26 July 2012)

Age: 42

Special responsibilities:

Interest in shares: Nil

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

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

Company Secretary

The Company Secretary role was held by Frederick James Powers who has held the role since 26 February 2009. Fred was the principal of Redlands Taxation Services accountancy firm for over 22 years until his recent retirement. He also holds formal Company Secretary qualifications.

Principal Activities

The principal activities of the company during the course of the financial year were in facilitating **Community Bank®** services under management rights to operate a franchised branch of Bendigo and Adelaide Bank Limited.

There have been no significant changes in the nature of these activities during the year.

Operating Results

Operations have continued to perform in line with expectations. The profit of the company for the financial year after provision for income tax was:

	Year ended 30 June 2012 \$	Year ended 30 June 2011 \$
	60,645	57,057

Remuneration Report

There are no employees who are directly accountable and have responsibility for the strategic direction and operational management of the entity.

There are therefore no specified Executives whose remuneration requires disclosure.

Dividends	Year Ended 30 June 2012	
	Cents	\$
- Dividends paid in the year	3.00	20,379

Significant Changes in the State of Affairs

In the opinion of the directors there were no significant changes in the state of affairs of the company that occurred during the financial year under review not otherwise disclosed in this report or the financial statements.

Directors' report (continued)

Matters Subsequent to the End of the Financial Year

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

Likely Developments

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

Environmental Regulation

The company is not subject to any significant environmental regulation.

Directors' Benefits

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

Indemnification and Insurance of Directors and Officers

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

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

Directors' Meetings

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

Director	Board Meetings Attended	
	Eligible	Attended
Garry Francis White	11	11
Frederick James Powers	11	11
Ann Constance Reed	11	6
Arnal Pravikash Chand	11	8
Merijn Leonardus Cornelis de Kruijf	11	9
Kelly-Jade Sandes (Appointed 20 September 2011)	8	5
James Andrew McNamara (Appointed 26 July 2012)	-	-
Stefan Peter Floratos (Appointed 26 July 2012)	-	-

The board has three other sub-committees for Human Resources, Business Development and Marketing. The sub-committees met on an informal and as needed basis during the financial year and report to the Board meetings as required.

Directors' report (continued)

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 the notes to the accounts.

The board of directors has considered the position, in accordance with the advice received from the audit committee and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are satisfied that the provision of non-audit services by the auditor, as set out in the notes 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 audit committee to ensure they do not impact on the impartiality and objectivity of the auditor;
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 11.

Signed in accordance with a resolution of the board of directors at Redlands, Queensland on 7 September 2012.



Garry Francis White,
Chairman

Auditor's independence declaration



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

I declare, that to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit
- any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to be 'Graeme Stewart', written over a horizontal line.

Graeme Stewart
Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550

Dated: 7 September 2012

Liability limited by a scheme approved under Professional Standards Legislation. ABN: 51 061 795 337.

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Financial statements

Statement of Comprehensive Income for the Year Ended 30 June 2012

	Note	2012 \$	2011 \$
Revenues from ordinary activities	4	662,525	588,518
Employee benefits expense		(320,194)	(306,007)
Charitable donations, sponsorship, advertising and promotion		(47,416)	(38,923)
Occupancy and associated costs		(49,706)	(42,893)
Systems costs		(17,651)	(16,858)
Depreciation and amortisation expense	5	(32,643)	(15,028)
Finance costs	5	(4,491)	(1,003)
General administration expenses		(105,161)	(82,400)
Profit before income tax expense		85,263	85,406
Income tax expense	6	(24,618)	(28,349)
Profit after income tax expense		60,645	57,057
Total comprehensive income for the year		60,645	57,057
Earnings per share (cents per share)		c	c
- basic for profit for the year	23	8.93	8.40

The accompanying notes form part of these financial statements.

Financial statements (continued)

Balance Sheet as at 30 June 2012

	Note	2012 \$	2011 \$
ASSETS			
Current Assets			
Cash and cash equivalents	7	39,972	66,282
Trade and other receivables	8	41,456	20,134
Total Current Assets		81,428	86,416
Non-Current Assets			
Property, plant and equipment	9	134,861	80,179
Intangible assets	10	47,987	61,872
Deferred tax assets	11	126,699	151,317
Total Non-Current Assets		309,547	293,368
Total Assets		390,975	379,784
LIABILITIES			
Current Liabilities			
Trade and other payables	12	21,037	15,630
Borrowings	13	29,315	18,384
Provisions	14	5,138	5,584
Total Current Liabilities		55,490	39,598
Non-Current Liabilities			
Provisions	14	2,603	1,274
Borrowings	13	-	46,296
Total Non-Current Liabilities		2,603	47,570
Total Liabilities		58,093	87,168
Net Assets		332,882	292,616
Equity			
Issued capital	15	642,560	642,560
Accumulated losses	16	(309,678)	(349,944)
Total Equity		332,882	292,616

The accompanying notes form part of these financial statements.

Financial statements (continued)

Statement of Changes in Equity for the Year Ended 30 June 2012

	Issued Capital \$	Retained Earnings \$	Total Equity \$
Balance at 1 July 2010	642,560	(407,001)	235,559
Total comprehensive income for the year	-	57,057	57,057
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	-	-
Balance at 30 June 2011	642,560	(349,944)	292,616
Balance at 1 July 2011	642,560	(349,944)	292,616
Total comprehensive income for the year	-	60,645	60,645
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(20,379)	(20,379)
Balance at 30 June 2012	642,560	(309,678)	332,882

The accompanying notes form part of these financial statements.

Financial statements (continued)

Statement of Cashflows for the Year Ended 30 June 2012

	Note	2012 \$	2011 \$
Cash Flows From Operating Activities			
Receipts from customers		693,440	584,566
Payments to suppliers and employees		(563,332)	(488,762)
Interest received		1,812	510
Interest paid		(4,491)	(1,003)
Net cash provided by operating activities	17	127,429	95,311
Cash Flows From Investing Activities			
Payments for property, plant and equipment		(97,995)	(2,673)
Payments for intangible assets		-	(69,423)
Net cash used in investing activities		(97,995)	(72,096)
Cash Flows From Financing Activities			
Proceeds from borrowing		-	170,000
Repayment from borrowing		(35,365)	(105,320)
Dividends paid		(20,379)	-
Net cash provided by financing activities		(55,744)	64,680
Net increase in cash held		(26,310)	87,895
Cash and cash equivalents at the beginning of the financial year		66,282	(21,613)
Cash and cash equivalents at the end of the financial year	7(a)	39,972	66,282

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies

a) Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standard Boards and the Corporations Act 2001. The company is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

These financial statements and notes comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. These areas involving a higher degree of judgement or complexities, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Historical cost convention

The financial statements have been prepared under the historical cost convention on an accruals basis as modified by the revaluation of financial assets and liabilities at fair value through profit or loss and where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Comparative figures

Where required by Australian Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

Adoption of new and revised Accounting Standards

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. The adoption of the revised AASB 124 Related Party Disclosures has not resulted in the disclosure of any additional related party transactions in the current period or any prior period and is not likely to affect future periods. The adoption of AASB 1054 Australian Additional Disclosures and AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project have not affected the disclosure of any items in the financial statements.

The company has not elected to apply any pronouncements before their mandatory operative date in the annual reporting period beginning 1 July 2011.

Economic dependency - Bendigo and Adelaide Bank Limited

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank**[®] branch at Victoria Point, Queensland.

Notes to the financial statements (continued)

Note 1. Summary of Significant Accounting Policies (continued)

a) Basis of Preparation (continued)

Economic dependency - Bendigo and Adelaide Bank Limited (continued)

The branch operates as a franchise of Bendigo and Adelaide Bank Limited, using the name “Bendigo Bank” and the logo and system of operations of Bendigo and Adelaide Bank Limited. The company manages the **Community Bank**[®] branch on behalf of Bendigo and Adelaide Bank Limited, however all transactions with customers conducted through the **Community Bank**[®] branches are effectively conducted between the customers and Bendigo and Adelaide Bank Limited.

All deposits are made with Bendigo and Adelaide Bank Limited, and all personal and investment products are products of Bendigo and Adelaide Bank Limited, 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 and Adelaide Bank Limited, must be approved by Bendigo and Adelaide Bank Limited. All credit transactions are made with Bendigo and Adelaide Bank Limited, and all credit products are products of Bendigo and Adelaide Bank Limited.

Bendigo and Adelaide Bank Limited provides significant assistance in establishing and maintaining the **Community Bank**[®] branch 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 in relation to:

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

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

b) Revenue

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefit will flow to the company and any specific criteria have been met. Interest and fee revenue is recognised when earned. The gain or loss on disposal of property, plant and equipment is recognised on a net basis and is classified as income rather than revenue. All revenue is stated net of the amount of Goods and Services Tax (GST).

Revenue calculation

The franchise agreement with Bendigo and Adelaide Bank Limited provides for three types of revenue earned by the company. First, the company is entitled to 50% of the monthly gross margin earned by Bendigo and Adelaide Bank Limited on products and services provided through the company that are regarded as “day to day” banking business (ie ‘margin business’). This arrangement also means that if the gross margin reflects a loss (that is, the gross margin is a negative amount), the company effectively incurs, and must bear, 50% of that loss.

Notes to the financial statements (continued)

Note 1. Summary of Significant Accounting Policies (continued)

b) Revenue (continued)

Revenue calculation (continued)

The second source of revenue is commission paid by Bendigo and Adelaide Bank Limited on the other products and services provided through the company (ie 'commission business'). The commission is currently payable on various specified products and services, including insurance, financial planning, common fund, Sandhurst Select, superannuation, commercial loan referrals, products referred by Rural Bank, leasing referrals, fixed loans and certain term deposits (>90 days). The amount of commission payable can be varied in accordance with the Franchise Agreement (which, in some cases, permits commissions to be varied at the discretion of Bendigo and Adelaide Bank Limited). This discretion has been exercised on several occasions previously. For example in February 2011 Bendigo and Adelaide Bank Limited reduced commissions on two core banking products to ensure a more even distribution of income between Bendigo and Adelaide Bank Limited and its **Community Bank**[®] partners. The revenue share model is subject to regular review to ensure that the interests of Bendigo and Adelaide Bank Limited and **Community Bank**[®] companies remain balanced.

The third source of revenue is a proportion of the fees and charges (ie, what are commonly referred to as 'bank fees and charges') charged to customers. This proportion, determined by Bendigo and Adelaide Bank Limited, may vary between products and services and may be amended by Bendigo and Adelaide Bank Limited from time to time.

c) Income Tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method on temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

Notes to the financial statements (continued)

Note 1. Summary of Significant Accounting Policies (continued)

c) Income Tax (continued)

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

d) Employee Entitlements

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

The company contributes to a defined contribution plan. Contributions to employee superannuation funds are charged against income as incurred.

e) Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

f) Trade Receivables and Payables

Receivables are carried at their amounts due. The collectability of debts is assessed at balance date and specific provision is made for any doubtful accounts. Liabilities for trade creditors and other amounts are carried at cost that is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the company.

g) Property, Plant and Equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated at the rate equivalent to the available building allowance using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

- leasehold improvements 40 years
- plant and equipment 2.5 - 40 years
- furniture and fittings 4 - 40 years

Notes to the financial statements (continued)

Note 1. Summary of Significant Accounting Policies (continued)

h) Intangibles

The franchise fee paid to Bendigo and Adelaide Bank Limited has been recorded at cost and is amortised on a straight line basis over the life of the franchise agreement.

i) Payment Terms

Receivables and payables are non interest bearing and generally have payment terms of between 30 and 90 days.

j) Borrowings

All loans are initially measured at the principal amount. Interest is recognised as an expense as it accrues.

k) Financial Instruments

Recognition and initial measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value plus transaction costs. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset.

Classification and subsequent measurement

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the entity's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

(iii) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Impairment

At each reporting date, the entity assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the statement of comprehensive income.

Notes to the financial statements (continued)

Note 1. Summary of Significant Accounting Policies (continued)

l) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership are transferred to the company are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

m) Provisions

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

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

n) Contributed Equity

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

o) Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

p) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not 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 expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis.

The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Notes to the financial statements (continued)

Note 2. Financial Risk Management

The company's activities expose it to a limited variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. 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 entity. The entity does not use derivative instruments.

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

(i) Market risk

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

(ii) Price risk

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

(iii) Credit risk

The company has no significant concentrations of credit risk. It has policies in place to ensure that customers have an appropriate credit history. The company's franchise agreement limits the company's credit exposure to one financial institution, being Bendigo and Adelaide Bank Limited.

(iv) Liquidity risk

Prudent liquidity management implies maintaining sufficient cash and marketable securities and the availability of funding from credit facilities. The company believes that its sound relationship with Bendigo and Adelaide Bank Limited mitigates this risk significantly.

(v) Cash flow and fair value interest rate risk

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

(vi) Capital management

The board's policy is to maintain a strong capital base so as to sustain future development of the company. The board of directors monitor the return on capital and the level of dividends to shareholders. Capital is represented by total equity as recorded in the balance sheet.

In accordance with the franchise agreement, in any 12 month period, the funds distributed to shareholders shall not exceed the distribution limit.

(i) the distribution limit is the greater of:

(a) 20% of the profit or funds of the franchisee otherwise available for distribution to shareholders in that 12 month period; and

(b) subject to the availability of distributable profits, the relevant rate of return multiplied by the average level of share capital of the franchisee over that 12 month period; and

(ii) 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%.

Notes to the financial statements (continued)

Note 2. Financial Risk Management (continued)

(vi) Capital management (continued)

The board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the year ended 30 June 2012 can be seen in the statement of comprehensive income.

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

Note 3. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Taxation

Judgement is required in assessing whether deferred tax assets and certain tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation.

These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in corresponding credit or charge to the statement of comprehensive income.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience and the condition of the asset is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Notes to the financial statements (continued)

Note 3. Critical Accounting Estimates and Judgements (continued)

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net identifiable assets of the acquired branch/agency at the date of acquisition. Goodwill on acquisition is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

The calculations require the use of assumptions.

Impairment of assets

At each reporting date, the company reviews the carrying amounts of its tangible and intangible assets that have an indefinite useful life to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

	2012 \$	2011 \$
Note 4. Revenue from Ordinary Activities		
Operating activities:		
- services commissions	660,828	557,400
- other revenue	-	30,440
Total revenue from operating activities	660,828	587,840
Non-operating activities:		
- interest received	1,697	678
Total revenue from non-operating activities	1,697	678
Total revenues from ordinary activities	662,525	588,518

Notes to the financial statements (continued)

	2012 \$	2011 \$
Note 5. Expenses		
Depreciation of non-current assets:		
- plant and equipment	8,309	2,163
- leasehold improvements	279	293
- furniture & fittings	9,327	3,204
- computer software	113	87
- leasehold improvements	730	730
Amortisation of non-current assets:		
- franchise agreement	2,314	2,258
- franchise renewal	11,571	6,293
	32,643	15,028
Finance costs:		
- interest paid	4,491	1,003
Bad debts	749	671

Note 6. Income Tax Expense

The components of tax expense comprise:

- Current tax	-	-
- Future income tax benefit attributed to losses	-	-
- Movement in deferred tax	(299)	50
- Recoup of prior year tax loss	25,878	28,032
- Under provision of tax in the prior period	1,304	267
- Adjustments to tax expense of prior periods	(2,265)	-
	24,618	28,349

The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:

Operating profit	85,263	85,406
Prima facie tax on profit from ordinary activities at 30%	25,579	25,622
Add tax effect of:		
- non-deductible expenses	-	2,565
- timing difference expenses	299	(50)
- other deductible expenses	-	(105)
	25,878	28,032

Notes to the financial statements (continued)

	Note	2012 \$	2011 \$
Note 6. Income Tax Expense (continued)			
Movement in deferred tax	11	(299)	50
Under provision of income tax in the prior year		1,304	267
Adjustments to tax expense of prior periods		(2,265)	-
		24,618	28,349

Note 7. Cash and Cash Equivalents

Cash at bank and on hand	39,972	66,282
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The above figures are reconciled to cash at the end of the financial year as shown in the statement of cashflows as follows:

Note 7.(a) Reconciliation of cash

Cash at bank and on hand	39,972	66,282
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Note 8. Trade and Other Receivables

Trade receivables	36,213	16,412
Prepayments	5,243	3,722
	41,456	20,134

Note 9. Property, Plant and Equipment

Plant and equipment - Victoria Point

At cost	106,693	35,725
Less accumulated depreciation	(26,094)	(14,661)
	80,599	21,064

Plant and equipment - Macleay Island

At cost	7,692	7,692
Less accumulated depreciation	(1,779)	(1,501)
	5,913	6,191

Furniture & fittings

At cost	36,975	54,279
Less accumulated depreciation	(13,183)	(26,755)
	23,792	27,524

Notes to the financial statements (continued)

	2012 \$	2011 \$
Note 9. Property, Plant and Equipment (continued)		
Computer software		
At cost	13,661	13,661
Less accumulated depreciation	(13,577)	(13,464)
	84	197
Leasehold improvements		
At cost	29,217	29,217
Less accumulated depreciation	(4,744)	(4,014)
	24,473	25,203
Total written down amount	134,861	80,179
Movements in carrying amounts:		
Plant and equipment - Victoria Point		
Carrying amount at beginning	21,064	20,838
Additions	20,504	2,389
Disposals	(8,449)	-
Less: depreciation expense	(9,327)	(2,163)
Carrying amount at end	23,792	21,064
Plant and equipment - Macleay Island		
Carrying amount at beginning	6,191	6,484
Additions	-	-
Disposals	-	-
Less: depreciation expense	(278)	(293)
Carrying amount at end	5,913	6,191
Furniture & fittings		
Carrying amount at beginning	27,524	30,728
Additions	77,492	-
Disposals	(16,109)	-
Less: depreciation expense	(8,308)	(3,204)
Carrying amount at end	80,599	27,524

Notes to the financial statements (continued)

	2012 \$	2011 \$
Note 9. Property, Plant and Equipment (continued)		
Computer software		
Carrying amount at beginning	197	-
Additions	-	284
Disposals	-	-
Less: depreciation expense	(113)	(87)
Carrying amount at end	84	197
Leasehold improvements		
Carrying amount at beginning	25,203	25,933
Additions	-	-
Disposals	-	-
Less: depreciation expense	(730)	(730)
Carrying amount at end	24,473	25,203
Total written down amount	134,861	80,179

Note 10. Intangible Assets

Franchise fee		
At cost	21,570	21,570
Less: accumulated amortisation	(13,572)	(11,258)
	7,998	10,312
Renewal processing fee		
At cost	57,853	57,853
Less: accumulated amortisation	(17,864)	(6,293)
	39,989	51,560
Total written down amount	47,987	61,872

Note 11. Tax

Deferred tax assets		
- accruals	990	990
- employee provisions	2,322	2,057
- tax losses carried forward	123,402	148,320
	126,714	151,367

Notes to the financial statements (continued)

	2012 \$	2011 \$
Note 11. Tax (continued)		
Deferred tax liability		
- accruals	(15)	50
Net deferred tax asset	126,699	151,317
Movement in deferred tax charged to statement of comprehensive income	24,618	28,083

Note 12. Trade and Other Payables

Trade creditors	16,708	11,253
Other creditors and accruals	4,329	4,377
	21,037	15,630

Note 13. Borrowings

Current:

Bank loans	29,315	18,384
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Non-Current:

Bank loans	-	46,296
	-	46,296

The bank loan was repaid in full on 22 August 2012. Interest is recognised at an average rate of 1.24%.

Note 14. Provisions

Current:

Provision for annual leave	5,138	5,584
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Non-Current:

Provision for long service leave	2,603	1,274
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Note 15. Contributed Equity

679,310 Ordinary shares fully paid (2011: 679,310)	679,310	679,310
Less: equity raising expenses	(36,750)	(36,750)
	642,560	642,560

Notes to the financial statements (continued)

Note 15. Contributed Equity (continued)

Rights attached to shares

(a) Voting rights

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

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

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

(b) 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 and Adelaide Bank Limited contains a limit on the level of profits or funds that may be distributed to shareholders. There is also a restriction on the payment of dividends to certain shareholders if they have a prohibited shareholding interest (see below).

(c) 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.

Prohibited shareholding interest

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

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

- They control or own 10% or more of the shares in the company (the "10% limit").
- In the opinion of the board they do not have a close connection to the community or communities in which the company predominantly carries on business (the "close connection test").
- Where the person is a shareholder, after the transfer of shares in the company to that person the number of shareholders in the company is (or would be) lower than the base number (the "base number test"). The base number is 266. As at the date of this report, the company had 296 shareholders.

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

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

Notes to the financial statements (continued)

Note 15. Contributed Equity (continued)

Prohibited shareholding interest (continued)

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

The National Stock Exchange (NSX) has advised that in its view the prohibited shareholding provisions are appropriate and equitable but the 'base number test' is not as a result the base number clause does not operate whilst the company remains listed on the NSX.

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.

	2012 \$	2011 \$
Note 16. Accumulated Losses		
Balance at the beginning of the financial year	(349,944)	(407,001)
Net profit from ordinary activities after income tax	60,645	57,057
Dividend paid	(20,379)	-
Balance at the end of the financial year	(309,678)	(349,944)

Note 17. Statement of Cashflows

Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities

Profit from ordinary activities after income tax	60,645	57,057
Non cash items:		
- depreciation	32,643	6,477
- amortisation	24,555	8,551
Changes in assets and liabilities:		
- (increase)/decrease in receivables	(21,322)	5,019
- decrease in other assets	24,618	28,349
- increase/(decrease) in payables	5,407	(10,141)
- increase/(decrease) in provisions	883	(1)
Net cashflows provided by operating activities	127,429	95,311

Notes to the financial statements (continued)

	2012 \$	2011 \$
Note 18. Leases		
Operating lease commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable - minimum lease payments		
- not later than 12 months		35,068
- between 12 months and 5 years		119,815
- greater than 5 years	-	-
	-	154,883

The branch premises lease is a non-cancellable lease with a five-year term. The first renewal of the lease was taken on the 1 December 2010, with one remaining renewal option of a 5 year term remaining. Rent is payable monthly in advance and is increased annually by CPI.

Note 19. Auditor's Remuneration

Amounts received or due and receivable by the auditor of the company for:

- audit and review services	4,500	4,500
- non audit services	1,700	1,956
	6,200	6,456

Note 20. Director and Related Party Disclosures

The names of directors who have held office during the financial year are:

Garry Francis White
Frederick James Powers
Ann Constance Reed
Arnal Pravikash Chand
Merijn Leonardus Cornelis de Kruijf
Kelly-Jade Sandes (Appointed 20 September 2011)
James Andrew McNamara (Appointed 26 July 2012)
Stefan Peter Floratos (Appointed 26 July 2012)

No director or related entity has entered into a material contract with the company. No director's fees have been paid as the positions are held on a voluntary basis.

Notes to the financial statements (continued)

Note 20. Director and Related Party Disclosures (continued)

Directors' Shareholdings	2012	2011
Garry Francis White	10,003	10,003
Frederick James Powers	-	-
Ann Constance Reed	-	-
Arnal Pravikash Chand	-	-
Merijn Leonardus Cornelis de Kruijf	-	-
Kelly-Jade Sandes (Appointed 20 September 2011)	-	-
James Andrew McNamara (Appointed 26 July 2012)	-	-
Stefan Peter Floratos (Appointed 26 July 2012)	-	-

There was no movement in directors' shareholdings during the year.

Note 21. Key Management Personnel Disclosures

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.

	2012	2011
	\$	\$

Note 22. Dividends Paid

a. Dividends paid during the year

Prior year final unfranked dividend (3 cents per share)	20,379	-
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Note 23. Earnings Per Share

(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	60,645	57,057
	Number	Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	679,310	679,310

Note 24. Events Occurring After the Balance Sheet Date

There have been no other events after the end of the financial year that would materially affect the financial statements.

Notes to the financial statements (continued)

Note 25. Contingent Liabilities

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

Note 26. Segment Reporting

The economic entity operates in the service sector where it facilitates **Community Bank**[®] services in Victoria Point, Queensland pursuant to a franchise agreement with Bendigo and Adelaide Bank Limited.

Note 27. Registered Office/Principal Place of Business

The registered office and principal place of business is:

Registered Office	Principal Place of Business
Suite 39/Level 1 Bay Village Shopping Centre	Shop 5/127 Colburn Avenue
133 Broadwater Terrace	Victoria Point QLD 4163
Redland Bay QLD 4165	

Note 28. Financial Instruments

Net Fair Values

The net fair values of financial assets and liabilities approximate the carrying values as disclosed in the balance sheet. The company does not have any unrecognised financial instruments at the year end.

Credit Risk

The maximum exposure to credit risk at balance date to recognised financial assets is the carrying amount of those assets as disclosed in the balance sheet and notes to the financial statements.

There are no material credit risk exposures to any single debtor or group of debtors under financial instruments entered into by the economic entity.

Notes to the financial statements (continued)

Note 28. Financial Instruments (continued)

Interest Rate Risk

Financial instrument	Floating interest rate		Fixed interest rate maturing in						Non interest bearing		Weighted average effective interest rate	
			1 year or less		Over 1 to 5 years		Over 5 years					
	2012 \$	2011 \$	2012 \$	2011 \$	2012 \$	2011 \$	2012 \$	2011 \$	2012 \$	2011 \$	2012 %	2011 %
Financial Assets												
Cash and cash equivalents	39,972	46,108	10,043	20,175	-	-	-	-	-	-	2.98	3.01
Receivables	-	-	-	-	-	-	-	-	41,456	20,134	N/A	N/A
Financial Liabilities												
Interest bearing liabilities	29,315	64,680	-	-	-	-	-	-	-	-	1.24	1.56
Payables	-	-	-	-	-	-	-	-	21,038	15,630	N/A	N/A

Directors' declaration

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

In the opinion of the directors:

- (a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- (c) the audited remuneration disclosures set out in the remuneration report section of the directors' report comply with Accounting Standard AASB124 Related Party Disclosures and the Corporations Regulations 2001.

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



Garry Francis White,
Chairman

Signed on the 7th of September 2012.

Independent audit report



Independent auditor's report to the members of Redlands Community Financial Services Limited

Report on the financial report

We have audited the accompanying financial report of Redlands Community Financial Services Limited, which comprises the balance sheet as at 30 June 2012, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and presentation of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making fair accounting estimates that are reasonable in the circumstances. In note 1, the directors also state in accordance with the Accounting Standard AASB 101 Presentation of Financial Statements that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These auditing standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the company's financial position and of its performance.

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: 51 061 795 337.

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Independent audit report (continued)

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written auditor's independence declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's opinion on the financial report

In our opinion:

- 1) The financial report of Redlands Community Financial Services Limited is in accordance with the *Corporations Act 2001* including giving a true and fair view of the company's financial position as at 30 June 2012 and of its financial performance and its cash flows for the year then ended and complying with Australian Accounting Standards and the Corporations Regulations 2001.
- 2) The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Redlands Community Financial Services Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.



Graeme Stewart
Andrew Frewin Stewart
61 Bull Street Bendigo Vic 3550

Dated: 7 September 2012

NSX report

Redlands Community Financial Services Limited is a public company incorporated in Australia and listed on the National Stock Exchange of Australia (NSX).

Shareholding

The following table shows the number of shareholders, broken into various categories showing the total number of shares held.

Number of shares held	Number of shareholders	Number of shares held
1 to 1,000	184	122001
1,001 to 5,000	93	293303
5,001 to 10,000	11	96502
10,001 to 100,000	8	167504
100,001 and over	0	0
Total shareholders	296	679,310

Equity securities

Each of the above shareholders are entitled to 1 vote, irrespective of the number of shares held.

There are no substantial shareholders (holding more than 5% of voting rights) as each shareholder is entitled to 1 vote. Normally holding more than 5% of total issued shares would create a substantial shareholder, but this is not applicable due to the voting restrictions for the company.

There are 104 shareholders holding less than a marketable parcel of shares (\$500 in value).

There are no restricted securities on issue.

All shares on issue are ordinary shares fully paid to \$1 per share. There are no unquoted equity securities.

Ten largest shareholders

The following table shows the 10 largest shareholders.

Shareholder	Number of fully paid shares held	Percentage of issued capital
Arthur Erry	50000	7.36
Constatine Efstathis	25000	3.68
Stathis Efstathis	20501	3.02
Monika Hunt	20000	2.94
Parker Chisolm Super Fund	20000	2.94
Winpar Holdings Limited	11500	1.69
Mr & Mrs Webster	10500	1.55
Garry White	10003	1.47
Beaver Group Holdings	10000	1.47
Mr N & Mrs O Taylor	10000	1.47
	187,504	28

NSX report (continued)

Registered office and principal administrative office

The registered office of the company is located at:

Suite 39/Level 1, Bay Village Shopping Centre,
133 Broadwater Terrace,
Redland Bay QLD 4165

The principal administrative office of the company is located at:

Suite 39/Level 1, Bay Village Shopping Centre,
133 Broadwater Terrace,
Redland Bay QLD 4165

Security register

The security register (share register) is kept at:

52 Angove park Drive,
Tea Tree Gully SA 5091
Phone: (08) 8395 2308

Company Secretary

Fred Powers has been the Company Secretary of Redlands Community Financial Services Ltd since February 2009. Fred is a qualified accountant with his own accountancy practice for over 22 years.

Corporate governance

The company has implemented various corporate governance practices, which include:

- (a) The establishment of an audit committee. Members of the audit committee are Garry White
- (b) Director approval of operating budgets and monitoring of progress against these budgets;
- (c) Ongoing Director training; and
- (d) Monthly Director meetings to discuss performance and strategic plans.

Annexure 3

There are no material differences between the information in the company's Annexure 3 and the information in the financial documents in its Annual Report.

5 Year summary of performance

	2008	2009	2010	2011	2012
	\$	\$	\$	\$	\$
Gross revenue	292,639	350,302	464,979	588,518	662,525
Net profit before tax	-79,196	-88,628	22,892	85,406	85,263
Total assets	303,168	295,374	289,802	379,784	390,975
Total liabilities	22,914	77,544	54,243	87,168	58,093
Total equity	280,254	217,830	235,559	292,616	332,882



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