

**North Epping Financial
Services Limited**

ABN 57 104 573 499

ANNUAL REPORT

30th June 2012

North Epping
Community Bank[®] Branch



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 North Epping 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 North Epping Financial Services Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.



David Hutchings
Andrew Frewin Stewart
61 Bull Street Bendigo Vic 3550

Dated: 19 October 2012

North Epping Financial Services Limited

Annual Report 2012

Chairman's Report

I would like to once again thank all of our voluntary Directors and friends of North Epping **Community Bank**® Branch for generously giving up their time to serve the shareholders of North Epping Financial Services Ltd.

This year we have had three of our Directors resign due to other commitments, Michael Coffey, Grandhi N Setty and John Goddard. Michael and Setty were on the Board when we opened the doors nearly nine years ago. I thank them all for their valuable input, dedication and time generously given to help our company grow to what it is today.

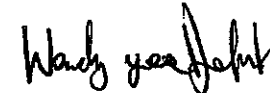
Once again the past year has been a very challenging one with the European problems affecting our markets and banking industry. There has been very aggressive marketing from competitors, but I am pleased to say that we have achieved positive growth of 0.5% since our last financial year taking us to \$88.9 million in business. We still need to do some hard work to get our message out there and let people know why they should bank with North Epping **Community Bank**® Branch.

I would like to thank our Branch Manager, Sharyn Hubert and our team of dedicated staff that are doing a wonderful job even with such aggressive competition. Their focus on delivering good customer service with good sound banking products helps to set us apart. The **Community Bank**® model that we are partnered in with Bendigo and the Adelaide Bank is a strong sustainable one that will serve us well in the long term. Being part of a **Community Bank**® that supports the community in which it operates has enabled many **Community Bank**® branches to grow their business, ours included. More and more people want to have a bank with a long term commitment to support their own local community.

In February we held our first Community Forum to help us identify a major project that our community would like to achieve. We have since formed four community interest groups to investigate these proposed projects. On behalf of the Board, I would also like to thank every volunteer participating in these interest groups for their time generously given. We will keep you updated of their progress via our newsletters.

The **Community Bank**® branch network is steadily growing with over \$80 million given back to local communities. That is an increase of over \$20 million in the last year. North Epping has added another \$100,000 in the last year given with a total of over \$475,000 being given to our community since opening our doors nearly nine years ago.

The Board looks forward to leading our company into the future. I encourage you, our shareholders to bank with our North Epping **Community Bank**® Branch. Remember the more we grow the more the wealth of our Community and you, our shareholders, grows.



Wendy Yee-Dempster
Chairman

North Epping Financial Services Limited

Annual Report 2012

Manager's Report

Change, challenges and community contributions

The past year has been one of change and challenges and we are pleased to continue our commitment to contributing to our local community.

Change has come in the loss of two valued staff members. Steve and Sarah-Jane both contributed greatly to the success of our branch and are missed by staff and customers. Our new staff Clara & Junie have settled in well and you will find they are always willing to assist you in any way they can.

Challenges have come in the form of assisting clients affected by the lasting impacts of the GFC either in maintaining loan payments or loss of income due to falling interest rates on their investments.

Challenge has also come from strong market competition with some financial institutions prepared to pay any price to attract business even though the prices offered appear to be unsustainable.

Despite these challenges we have been able to maintain our business levels and make significant contributions to our community from our branch profit. I believe this has been possible due to customer loyalty and the high standard of service the branch staff provide.

Last year I expressed my belief that due to our business success and profitability we could now consider some major projects in partnership with community organisations and council. The first of these, being a partnership with Epping North Primary School to air condition their classrooms, has now been realised. Following a Community Forum we held early this year more projects are being considered.

We are also pleased to outline below of local community beneficiaries for the financial year ended 30 June 2012.

- North Epping Rangers Sports Club
- Rotary Club of Epping
- All Saints Anglican Church
- Epping Boys' High School
- OLHC Parents & Friends
- North Epping Bowling & Community Club

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

Report on the financial report

We have audited the accompanying financial report of North Epping 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.

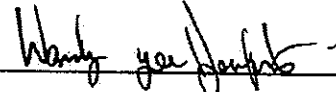
North Epping Financial Services Limited
ABN 57 104 573 499
Directors' Declaration

In accordance with a resolution of the directors of North Epping 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.



Wendy Faye Yee-Dempster, Chairman

Signed on the 19th of October 2012.

- Neighbourhood Watch
- Epping Youth Development Group – The Shack
- Eastwood District Rugby Union Football Club
- Epping Scout Group
- Epping District Athletics Club
- Epping Public School P & C Association
- North Epping girl Guides
- North Epping Community Bus
- Friends of Lane Cove National Park
- Epping District Cricket Club
- Epping North Public School P & C Association
- Lions Club of Epping/Eastwood
- LifeStart Cooperative
- Christian Community Aid
- North Epping Kindergarten
- ACCA Chinese Language School

Once again I express my gratitude to our Directors and my staff who have provided exceptional support over the past year. Karen, Mimi, Clara and Junie have remained focused on providing excellent customer service, regularly going beyond expectations to assist our customers.



Sharyn Hubert
Branch Manager



North Epping Financial Services Limited
ABN 57 104 573 499
Notes to the Financial Statements for the Year Ended 30 June 2012

Note 27. 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.

Interest Rate Risk

Financial instrument	Floating interest rate		Fixed interest rate maturing in						Non interest bearing		Weighted average effective interest rate			
	2012		2011		1 year or less		Over 1 to 5 years		Over 5 years		2012		2011	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%		
Financial Assets														
Cash and cash equivalents	54,517	138,049	155,000	155,000	48,150	45,000	-	-	-	-	-	7.46	2.62	
Receivables	-	-	-	-	-	-	-	-	64,051	64,762	N/A	N/A	N/A	
Financial Liabilities														
Payables	-	-	-	-	-	-	-	-	7,407	19,184	N/A	N/A	N/A	

Note 20. Dividends Paid or Provided	2012	2011
	\$	\$
b. Franking account balance		
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	121,680	83,148
- franking credits/(debits) that will arise from payment/(refund) of income tax as at the end of the financial year	(25,070)	37,698
- franking debits that will arise from the payment of dividends recognised as a liability at the end of the financial year	-	-
Franking credits available for future financial reporting periods:	96,610	120,846
- franking debits that will arise from payment of dividends proposed or declared before the financial report was authorised for use but not recognised as a distribution to equity holders during the period	-	-
Net franking credits available	<u>96,610</u>	<u>120,846</u>

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.

Note 22. Earnings Per Share	2012	2011
	\$	\$
(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	44,101	172,184
	<u>Number</u>	<u>Number</u>
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	511,008	511,008

Note 23. Events Occurring After the Balance Sheet Date

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

Note 24. Contingent Liabilities

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

Note 25. Segment Reporting

The economic entity operates in the service sector where it facilitates Community Bank® services in North Epping pursuant to a franchise agreement with Bendigo and Adelaide Bank Limited.

Note 26. Registered Office/Principal Place of Business

The registered office and principal place of business is:

Registered Office
 Shop 9/288 Malton Road
 North Epping NSW 2121

Principal Place of Business
 Shop 9/288 Malton Road
 North Epping NSW 2121

North Epping Financial Services Limited

Financial Statements

as at

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:

Wendy Faye Yee-Dempster
 Chairman
 Age: 44
 Occupation: Business Proprietor
 Experience and Expertise: Managed and operated own Hair Salon for 20 years.
 Interest in shares: 5,501

Howard Raymond Clark
 Treasurer
 Age: 68
 Occupation: Chartered Accountant
 Experience and Expertise: Retired partner from a major chartered accounting firm.
 Interest in shares: 501

Geoffrey Glen Collins
 Secretary
 Age: 59
 Occupation: Accountant
 Experience and Expertise: Member of the finance committee of the North Epping Bowling Club.
 Interest in shares: 1,500

Brian Thomas Hickinbottom
 Director
 Age: 80
 Occupation: Retired Engineer
 Experience and Expertise: Past President of the North Epping Bowling Club and Director of North Epping Bowling Club.
 Interest in shares: 1,001

Graham Harvey Boyd
 Director
 Age: 62
 Occupation: Retired marketing and small business proprietor
 Experience and Expertise: Marketing and sales management, small business ownership, business administration and involvement with All Saints Anglican Church.
 Interest in shares: 1,000

Craig Eric Gallagher
 Director (Appointed 27 July 2011)
 Age: 56
 Occupation: Solicitor
 Experience and Expertise: Been a practitioner in the Epping/Eastwood areas for 29 years. Chairman of Sydney Local Venue Council and Member of Venue NSW Authority. Member of Rotary Club of Epping
 Interest in shares: Nil

Grandhi Nookayyasetty
 Director (Resigned 3 July 2012)
 Age: 65
 Occupation: Company Director
 Experience and Expertise: Retired banker, Union Bank of Switzerland, Singapore.
 Interest in shares: 51,000

John Henry Goddard
 Director (Resigned 24 April 2012)
 Age: 75
 Occupation: Financial/Stock Market
 Experience and Expertise: Involvement in the Rotary Club of Epping.
 Interest in shares: 500

Michael Gerard Coffey
 Director (Resigned 9 June 2012)
 Age: 53
 Occupation: Legal Practitioner
 Experience and Expertise: Master of Laws degree, active legal practitioner since 1981.
 Interest in shares: 2,001

Helen Maree Hickinbottom
 Director (Appointed 27 June 2012)
 Age: 45
 Occupation: Manager Financial Strategy
 Experience and Expertise: Change management and organization development with a focus on continuous improvement programs across large complex
 Interest in shares: Nil

Nicholas Hubble
 Director (Appointed 4 July 2012)
 Age: 43
 Occupation: Financial Controller
 Experience and Expertise: Bachelor of Commerce, CPA. General Manager Commercial, Sydney Olympic Park
 Interest in shares: 5,000

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

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

Note 19. Director and Related Party Disclosures

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

Wendy Faye Yee-Dempster
 Howard Raymond Clark
 Geoffrey Glen Collins
 Brian Thomas Hickinbottom
 Graham Harvey Boyd
 Craig Eric Gallagher (Appointed 27 July 2011)
 Helen Maree Hickinbottom (Appointed 27 June 2012)
 Nicholas Hubble (Appointed 4 July 2012)
 Grandhi Nookayyasetty (Resigned 3 July 2012)
 Michael Gerard Coffey (Resigned 9 June 2012)
 John Henry Goddard (Resigned 24 April 2012)

Director Michael Coffey is a legal practitioner and was engaged by the company during the year. Michael Coffey received \$212.70 in relation to services rendered. The transaction was performed at arms length base under normal terms and conditions.

With the exception of director Michael Coffey, 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.

Directors' Shareholdings	2012	2011
Wendy Faye Yee-Dempster	5,501	5,501
Howard Raymond Clark	501	501
Geoffrey Glen Collins	1,500	1,500
Brian Thomas Hickinbottom	1,001	1,001
Graham Harvey Boyd	1,000	1,000
Craig Eric Gallagher (Appointed 27 July 2011)	1,000	1,000
Helen Maree Hickinbottom (Appointed 27 June 2012)	-	-
Nicholas Hubble (Appointed 4 July 2012)	5,000 *	-
Grandhi Nookayyasetty (Resigned 3 July 2012)	51,000	51,000
Michael Gerard Coffey (Resigned 9 June 2012)	2,001	2,751
John Henry Goddard (Resigned 24 April 2012)	500	500

* 5,000 shares purchased on 31 August 2012

Note 20. Dividends Paid or Provided	2012	2011
	\$	\$
a. Dividends paid during the year		
Current year dividend		
Unfranked dividend - Nil cents (2011: 9 cents) per share	-	45,991
Prior year proposed final		
Franked dividend - 10 cents (2011: nil cents) per share	51,101	-

Note 15. Retained Earnings	2012	2011
	\$	\$
Balance at the beginning of the financial year	49,134	(77,059)
Net profit from ordinary activities after income tax	44,101	172,184
Dividends paid or provided for	(51,101)	(45,991)
Balance at the end of the financial year	<u>42,134</u>	<u>49,134</u>

Note 16. 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	44,101	172,184
Non cash items:		
- depreciation	13,581	11,518
- amortisation	13,773	14,916
Changes in assets and liabilities:		
- increase in receivables	(18,093)	(3,534)
- (increase)/decrease in other assets	5,943	(3,007)
- increase/(decrease) in payables	(16)	9,116
- increase/(decrease) in provisions	(9,110)	9,653
- increase/(decrease) in current tax liabilities	(62,768)	11,247
Net cashflows provided by/(used in) operating activities	<u>(12,589)</u>	<u>222,093</u>

Note 17. 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	42,185	39,678
- between 12 months and 5 years	15,577	56,210
	<u>57,762</u>	<u>95,888</u>

The premises lease is a non-cancellable lease with a five-year term with the option to renew for a further 5 years in November 2013. Rent payable monthly in advance and increases annually by CPI.

Note 18. Auditor's Remuneration

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

- audit and review services	3,400	3,400
- non audit services	2,616	2,028
	<u>6,016</u>	<u>5,428</u>

Company Secretary

The company secretary is Geoffrey Glen Collins. Geoffrey became company secretary on 27 March 2007. Geoffrey is an accountant with career experience of more than 35 years, comprising 10 years in public/chartered practices (Melbourne and London) and 25 years in the commercial sector.

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
	\$	\$
	44,101	172,184

Remuneration Report

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

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:

	10	51,101
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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.

Matters Subsequent to the End of the Financial Year

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

Likely Developments

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

Environmental Regulation

The company is not subject to any significant environmental regulation.

Directors' Benefits

No director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a director, a firm which a director is a member or an entity in which a director has a substantial financial interest except as disclosed in note 19 to the financial statements. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the company's accounts, or the fixed salary of a full-time employee of the company, controlled entity or related body corporate.

Indemnification and Insurance of Directors' and Officers

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

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

Directors' Meetings

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

	Board Meetings Attended		Committee Meetings Attended					
			Finance		Business Development & Sponsorship		Community Funding & Projects	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
Wendy Faye Yee-Dempster	12	12	-	8	11	10	-	3
Howard Raymond Clark	12	9	8	8	-	-	-	-
Geoffrey Glen Collins	12	10	8	8	-	-	-	-
Brian Thomas Hickinbottom	12	9	-	-	-	-	-	3
Graham Harvey Boyd	12	10	-	-	11	11	3	3
John Henry Goddard (Resigned 24 April 2012)	12	10	-	-	-	-	-	-
Craig Eric Gallagher (Appointed 27 July 2011)	11	11	-	-	-	-	3	3
Grandhi Nookayyasetty (Resigned 3 July 2012)	12	8	8	8	-	-	-	-
Michael Gerard Coffey (Resigned 9 June 2012)	12	10	-	-	-	-	-	-

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.

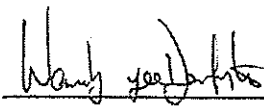
The directors are satisfied that the provision of non-audit services by the auditor, as set out in the notes did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- 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 4.

Signed in accordance with a resolution of the board of directors at North Epping, New South Wales on 19 October 2012.


 Wendy Faye Yee-Dempster, Chairman

Note 14. Contributed Equity

511,008 Ordinary shares fully paid (2011: 511,008)
 Less: equity raising expenses

	2012	2011
	\$	\$
511,008 Ordinary shares fully paid (2011: 511,008)	511,008	511,008
Less: equity raising expenses	(31,079)	(31,079)
	<u>479,929</u>	<u>479,929</u>

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").

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

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

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

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

	2012	2011
	\$	\$
Note 10. Intangible Assets		
<u>Franchise fee</u>		
At cost	61,477	61,477
Less: accumulated amortisation	(58,416)	(56,121)
	<u>3,061</u>	<u>5,356</u>
<u>Renewal processing fee</u>		
At cost	57,385	57,385
Less: accumulated amortisation	(42,083)	(30,605)
	<u>15,302</u>	<u>26,780</u>
Total written down amount	<u>18,363</u>	<u>32,136</u>
Note 11. Tax		
Current:		
Income tax payable/(refundable)	<u>(25,070)</u>	<u>37,698</u>
Non-Current:		
<u>Deferred tax assets</u>		
- accruals	161	-
- employee provisions	11,175	13,908
	<u>11,336</u>	<u>13,908</u>
<u>Deferred tax liability</u>		
- accruals	3,371	-
	<u>3,371</u>	<u>-</u>
Net deferred tax asset	<u>7,965</u>	<u>13,908</u>
Movement in deferred tax charged to statement of comprehensive income	<u>5,943</u>	<u>(3,007)</u>
Note 12. Trade and Other Payables		
Trade creditors	7,407	19,184
Other creditors and accruals	25,824	2,028
	<u>33,231</u>	<u>21,212</u>
Note 13. Provisions		
Current:		
Provision for annual leave	<u>15,749</u>	<u>21,158</u>
Non-Current:		
Provision for long service leave	<u>21,500</u>	<u>25,201</u>

Lead auditor's independence declaration under section 307C of the Corporations Act 2001 to the directors of North Epping 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.



David Hutchings
Andrew Frewin Stewart
 61 Bull Street, Bendigo Vic 3550

Dated: 19 October 2012

North Epping Financial Services Limited
 ABN 57 104 573 499
 Statement of Comprehensive Income
 for the Year Ended 30 June 2012

North Epping Financial Services Limited
 ABN 57 104 573 499
 Notes to the Financial Statements
 for the Year Ended 30 June 2012

	<u>Notes</u>	2012 \$	2011 \$
Revenues from ordinary activities	4	830,458	803,307
Employee benefits expense		(379,293)	(295,669)
Charitable donations, sponsorship, advertising and promotion		(218,370)	(103,407)
Occupancy and associated costs		(61,665)	(52,692)
Systems costs		(15,324)	(15,669)
Depreciation and amortisation expense	5	(27,354)	(26,438)
Finance costs	5	-	(14)
General administration expenses		(77,029)	(57,049)
Profit before income tax expense		51,423	252,369
Income tax expense	6	(7,322)	(80,185)
Profit after income tax expense		44,101	172,184
Total comprehensive income for the year		44,101	172,184
Earnings per share (cents per share)		<u>¢</u>	<u>¢</u>
- basic for profit for the year	22	8.63	33.69
- dividends paid per share	20	10	9

Note 7. Cash and Cash Equivalents

Cash at bank and on hand
 Term deposits

2012 \$	2011 \$
54,517	138,049
203,150	200,000
<u>257,667</u>	<u>338,049</u>

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
 Term deposits

54,517	138,049
203,150	200,000
<u>257,667</u>	<u>338,049</u>

Note 8. Trade and Other Receivables

Trade receivables
 Prepayments
 Other receivables and accruals

64,051	64,762
5,020	4,145
18,178	249
<u>87,249</u>	<u>69,156</u>

Note 9. Property, Plant and Equipment

Plant and equipment

At cost
 Less accumulated depreciation

74,866	65,267
(33,607)	(27,155)
<u>41,259</u>	<u>38,112</u>

Leasehold improvements

At cost
 Less accumulated depreciation

199,777	180,649
(44,807)	(37,678)
<u>154,970</u>	<u>142,971</u>

Total written down amount

<u>196,229</u>	<u>181,083</u>
----------------	----------------

Movements in carrying amounts:

Plant and equipment

Carrying amount at beginning
 Additions
 Less: depreciation expense

38,112	35,743
9,600	7,405
(6,452)	(5,036)

Carrying amount at end

<u>41,260</u>	<u>38,112</u>
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Leasehold improvements

Carrying amount at beginning
 Additions
 Less: depreciation expense

142,971	149,453
19,127	-
(7,129)	(6,482)

Carrying amount at end

<u>154,969</u>	<u>142,971</u>
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Total written down amount

<u>196,229</u>	<u>181,083</u>
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Note 5. Expenses	2012	2011
	\$	\$
Depreciation of non-current assets:		
- plant and equipment	7,129	6,482
- leasehold improvements	6,452	5,036
Amortisation of non-current assets:		
- franchise agreement	2,295	2,487
- franchise renewal fee	11,478	12,433
	<u>27,354</u>	<u>26,438</u>
Finance costs:		
- interest paid	-	14
Bad debts	<u>262</u>	<u>706</u>
Note 6. Income Tax Expense		
The components of tax expense comprise:		
- Current tax	9,571	83,192
- Movement in deferred tax	5,942	(3,007)
- Recoup of prior year tax loss	(8,191)	-
	<u>7,322</u>	<u>80,185</u>
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:		
Operating profit	51,423	252,369
Prima facie tax on profit from ordinary activities at 30%	15,427	75,709
Add tax effect of:		
- non-deductible expenses	86	4,476
- timing difference expenses	(5,943)	3,007
	<u>9,570</u>	<u>83,192</u>
Movement in deferred tax	11 5,943	(3,007)
Under/(Over) provision of income tax in the prior year	(8,191)	-
	<u>7,322</u>	<u>80,185</u>

ASSETS

Current Assets

	Notes	2012	2011
		\$	\$
Cash and cash equivalents	7	257,667	338,049
Trade and other receivables	8	87,249	69,156
Current tax assets	11	25,070	-

Total Current Assets 369,986 407,205

Non-Current Assets

Property, plant and equipment	9	196,229	181,083
Intangible assets	10	18,363	32,136
Deferred tax assets	11	7,965	13,908

Total Non-Current Assets 222,557 227,127

Total Assets 592,543 634,332

LIABILITIES

Current Liabilities

Trade and other payables	12	33,231	21,212
Current tax liabilities	11	-	37,698
Provisions	13	15,749	21,158

Total Current Liabilities 48,980 80,068

Non-Current Liabilities

Provisions	13	21,500	25,201
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Total Non-Current Liabilities 21,500 25,201

Total Liabilities 70,480 105,269

Net Assets 522,063 529,063

Equity

Issued capital	14	479,929	479,929
Retained earnings	15	42,134	49,134

Total Equity 522,063 529,063

North Epping Financial Services Limited
 ABN 57 104 573 499
 Statement of Changes in Equity
 for the Year Ended 30 June 2012

North Epping Financial Services Limited
 ABN 57 104 573 499
 Notes to the Financial Statements
 for the Year Ended 30 June 2012

	Issued Capital \$	Retained Earnings \$	Total Equity \$
Balance at 1 July 2010	479,929	(77,059)	402,870
Total comprehensive income for the year	-	172,184	172,184
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(45,991)	(45,991)
Balance at 30 June 2011	479,929	49,134	529,063
Balance at 1 July 2011	479,929	49,134	529,063
Total comprehensive income for the year	-	44,101	44,101
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(51,101)	(51,101)
Balance at 30 June 2012	479,929	42,134	522,063

Note 3. Critical Accounting Estimates and Judgements (continued)

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.

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.

Note 4. Revenue from Ordinary Activities

	2012 \$	2011 \$
Operating activities:		
- services commissions	799,646	792,006
- other revenue	4,472	4,861
Total revenue from operating activities	804,118	796,867
Non-operating activities:		
- interest received	26,340	6,440
Total revenue from non-operating activities	26,340	6,440
Total revenues from ordinary activities	830,458	803,307

Note 2. Financial Risk Management (continued)

(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%.

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.

	Notes	2012 \$	2011 \$
Cash Flows From Operating Activities			
Receipts from customers		884,757	803,671
Payments to suppliers and employees		(848,302)	(516,428)
Interest received		15,103	6,809
Interest paid		-	(14)
Income taxes paid		(64,147)	(71,945)
Net cash provided by/(used in) operating activities	16	<u>(12,589)</u>	<u>222,093</u>
Cash Flows From Investing Activities			
Payments for property, plant and equipment		(16,692)	(7,400)
Net cash used in investing activities		<u>(16,692)</u>	<u>(7,400)</u>
Cash Flows From Financing Activities			
Dividends paid		(51,101)	(45,991)
Net cash used in financing activities		<u>(51,101)</u>	<u>(45,991)</u>
Net increase in cash held		(80,382)	168,702
Cash and cash equivalents at the beginning of the financial year		338,049	169,347
Cash and cash equivalents at the end of the financial year	7(a)	<u>257,667</u>	<u>338,049</u>

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 North Epping, New South Wales.

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.

Note 1. Summary of Significant Accounting Policies (continued)

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.

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.

Note 1. Summary of Significant Accounting Policies (continued)

k) Financial Instruments (continued)

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.

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 of 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.

Note 1. Summary of Significant Accounting Policies (continued)

Economic dependency - Bendigo and Adelaide Bank Limited (continued)

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.

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.

Note 1. Summary of Significant Accounting Policies (continued)

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.

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.

Note 1. Summary of Significant Accounting Policies (continued)

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

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.

The renewal processing fee paid to Bendigo and Adelaide Bank Limited when renewing the franchise agreement has also 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.