Inverloch & District
Financial Enterprises Limited
ABN 13 117 672 590

annual report 2011

Inverloch & District **Community Bank®** Branch

Contents

Chairman's report

For year ending 30 June 2011

The year in review

Business conditions for the past financial year have been notably improved compared with those of the previous reporting period. Directors are pleased to be able to report to shareholders that for the 2010/2011 financial year the Company achieved a profit after income tax of $61,307, resulting in earnings per share of 8.17 cents. This was achieved through an improvement in revenue from ordinary activities of 9%. This outcome has also improved shareholder equity by 2% to $734,234.

Business development

During the year Directors embarked upon a community engagement initiative to encourage the establishment and support of an Agency in Tarwin Lower, so as to further develop our market share in this important adjunct area. Through these processes an on-line agency has now been established in the Terry White Pharmacy depot in Tarwin Lower, following a successful application by the owner of that business, Nik Anagnostou. Directors continue to work with both Nik Anagnostou and local community members to ensure the growth and success of this important business initiative.

The Board

Directors serving on the Board have remained relatively stable since the 2010 AGM and they continue to bring their experience and knowledge to bear in the governance and effective operation of the Company. One Director, Andrew Lawson, resigned during the year for health reasons and I thank him for input during the time that he was a Director. I also wish to place on record my appreciation for the dedication and hard work of all of our Directors, particularly those that Chair each of the Board Sub-Committees as well as our Treasurer Terry Hall.

Community contributions

In part, the Company exists to retain and distribute community capital, to enhance community infrastructure and contribute to the various activities and representative groups that make up the community. During the years since inception, the Company is pleased to have contributed by way of charitable donations, grants and sponsorships to the support of the community as outlined in the following table:

Financial year	Total
2005/06	$363
2006/07	$13,299
2007/08	$28,892
2008/09	$40,007
2009/10	$65,100
2010/11	$69,301
Grand total	**$216,962**

Chairman's report continued

The year to come and beyond

It is anticipated that funds under management are likely to reduce marginally in the forthcoming year due to increased competition. To combat this anticipated decline the Company will focus upon growing the business through further developing regional business relationships as well as ensuring that we meet the needs of existing customers. The Company will also strive to engage with the broad spectrum of community groups and sporting clubs and encourage them to become dedicated customers and "champions" of Inverloch & District **Community Bank®** Branch. To facilitate these outcomes the Board will conduct two Community Forums during the year, involving community groups, individuals and businesses as well as solidifying relationships with local authorities.

The branch team

Although the year saw a decline in the business banking sector of the business, residential lending and consumer lending and banking arrangements remained relatively strong. For this success, I wish to acknowledge the efforts of our Branch Manager, Jackie Laurie and her staff. The Board acknowledges the high level service that is provided to our customers through their dedication and professionalism. Although some staff members moved on during the year the branch has been able to continue the service that our customers have come to expect.

Our shareholders

Without shareholders investing in the formation of the Company, the outcomes achieved to date would not have been possible. The Board and I appreciate the forbearance of shareholders during the formative years for the Company and although we were pleased to be able to deliver a small dividend last year we look forward to further recognising our shareholders support in forthcoming years.

Our community

Inverloch & District **Community Bank®** Branch continues to be well supported by the community and this is evidenced by the number of customers currently serviced by the branch. The Board believe that there is potential for further growth of customer numbers and will embark upon an engagement strategy to raise the level of awareness about the **Community Bank®** concept and the benefits that can be achieved for community infrastructure and growth.

Alan Gostelow
Chairman

Manager's report

For year ending 30 June 2011

Our **Community Bank®** branch has now celebrated five years of trading and finished the year with $72 million of combined business on the books.

We had several highlights throughout the year, one being a bonus dividend paid to our shareholders to mark our fifth birthday. Another was the completion and official opening of the Inverloch Surf Life Saving Club house – a significant asset to our community. Our contribution of $100,000 enabled the $1.5 million project to come to fruition and to provide a vital asset to the community. The final $10,000 was used to assist the Inverloch Pre-School complete an additional classroom to meet the increasing number of children in the town.

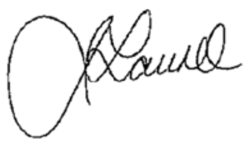
We now manage more than 2,800 accounts on behalf of our customers and community groups. This demonstrates the ongoing support of our customers and many community groups. A big thank you goes to Shari Johnson for her work in building that area and my capable Customer Service Officers – Anngie Krom, Annette Eldridge and Denise Wilson. I am sure you know them all by name now.

Another thank you also goes to our Chairman, Alan Gostelow, and our hardworking Board of Directors who continue to give up countless hours for Board meetings and work with community groups to enable the significant community outcomes we have achieved to date to take place.

Looking ahead we plan to grow the business both in Inverloch and through our new Tarwin Lower Agency by connecting with our customers and community groups with a range of new and exciting activities in the next financial year.

To ensure our community continues to be successful and prosperous, we ask you all to support us with your banking business and encourage your family and friends to do the same.

Remember it's 'Good for U and good for your community'.



Jackie Laurie
Branch Manager

Bendigo and Adelaide Bank Ltd report

For year ending 30 June 2011

As **Community Bank®** shareholders you are part of something special, a unique banking movement which has evolved into a whole new way of thinking about organising and strengthening community.

Together, we have reached new heights and achieved many great successes, all of which has been underpinned by our commitment and dedication to the communities we're a part of.

Together we're making extraordinary progress, with more than $58.25 million returned to support community groups and endeavours since the network was established in 1998.

The returns grow exponentially each year, with $469 thousand returned within the first five years, $8.15 million within the first eight and $22.58 million by the end of the first decade of operation. Based on this, we can predict the community returns should top $100 million within the next three years, which equates to new community facilities, better health care, increased transport services and generally speaking, more prosperous communities.

Together, we haven't just returned $58.25 million; there is also the flow on economic impact to consider. Bendigo and Adelaide Bank is in the process of establishing an evidential basis that captures the complete picture and the economic outcomes these initiatives generate. However, the tangible outcomes are obvious. We see it in tenanted shops, increased consumer traffic, retained local capital and new jobs but we know that there are broader elements of community strength beyond the economic indicators, which demonstrate the power of our community models.

It is now evident that branches go through a clear maturity phase, building customer support, generating surpluses and establishing a sustainable income stream. This enables Boards to focus less on generating business and more on the community's aspirations. Bendigo is facilitating this through Director engagement and education, community consultations and other community solutions (Community Enterprise Foundation™, Community Sector Banking, Community Telco, Generation Green™ and Community Enterprises) that will provide Boards with further development options.

In Bendigo, your **Community Bank®** Board has a committed and successful partner. Our past efforts and continued commitment to be Australia's leading customer-connected bank, that is relevant, connected and valued, is starting to attract attention and reap rewards.

In January, a Roy Morgan survey into customer satisfaction saw Bendigo Bank achieve an industry leading score among Australian retail banks. This was the first time Bendigo Bank has led the overall results since August 2009.

In May, Fitch Ratings upgraded Bendigo and Adelaide Banks Long-Term Issuer Default Rating (IDR) to A- from BBB+. This announcement saw us become the first Australian bank – and one of the very few banks globally – to receive an upgrade since the Global Financial Crisis.

Standard & Poor's revised credit rating soon followed seeing Bendigo and Adelaide Bank shift from BBB+ stable, to BBB+ positive. These announcements reflect the hard and diligent work by all our staff, our sound risk management practices, low-risk funding and balance sheet structure, sound capital ratios and a sustained improvement in profitability.

The strength of our business model – based on our commitment to our customers and the communities that we operate in – is being recognised by all three ratings agencies.

Bendigo and Adelaide Bank Ltd report continued

Over the past year the bank has also added more than 700 additional ATMs through a network sharing agreement with Suncorp Bank, which further enhances our customers' convenience and expands our footprint across the country. In addition to this a further 16 **Community Bank®** branches were opened.

The bank has also had a renewed focus on business banking and re-launched our wealth management services through Bendigo Wealth, which oversees the Adelaide Bank, Leveraged Equities, Sandhurst Trustees and financial planning offering.

The **Community Bank®** model is unique and successful, it's one of our major points of difference and it enables us to connect with more than 550,000 customers, in excess of 270 communities and make a difference in the lives of countless people.

We are very proud of the model we have developed and we're very thankful for the opportunity to partner with communities to help build their balance sheets.

We thank you all for the part you play in driving this success.

Russell Jenkins
Executive Customer and Community

Directors' report

For the financial year ended 30 June 2011

Your directors submit the financial statements of the company for the financial year ended 30 June 2011.

Directors

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

Alan Keith Gostelow
Chairman/Secretary
Age: 68
Business Executive
Ex-Army Officer and Senior Manager of various businesses. Graduate Diplomas Business Administration and Health Administration and Company Directors Diploma.
Interests in shares: 501

Terrence William Hall JP
Treasurer
Age: 68
Retired
25 years experience in finance industry including merchant and retail banking. Former Chairman, Banking and Local Government Councillor, Shire President.
Interests in shares: 32,001

Francis Barry McGarvey
Director
Age: 74
Retired
Former Primary Producer
Interests in shares: 2,001

Maxwell Alexander Warlow
Director
Age: 62
Accountant/Consultant
FCPA, ACA - Former member of CPA Victoria Board, Former President Athletics Essendon Inc, Former Fitness Adviser to Essendon Football Club. Currently coach Athletic Essendon.
Interests in shares: Nil

Stephen Andrew McHugh
Director
Age: 62
Retired Accountant
Diploma of Business Studies (Accounting) Extensive experience in Corporate Auditing with the Australian Taxation Office.
Interests in shares: Nil

David Leonard Schultz
Director
Age: 60
Company Director (Retired)
Civil Engineer, Company Director Diploma, Post Graduate Diploma Business Administration, External member Bass Coast Shire Audit Committee.
Interests in shares: 500

Domenic Anthony Brusamarello
Director
Age: 50
Self Employed
Self Employed, Manager and Business Consultant, President Inverloch Tourism Association Inc., President Inverloch Food and Wine Festival Inc.
Interests in shares: 5000

Andrew Peter Lawson
Director (Appointed 18 November 2010 and Resigned 23 March 2011)

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

Directors' report continued

Company Secretary

The company secretary is Alan Gostelow. Alan was appointed to the position of secretary on 22 December 2005. Alan is an ex-army officer and senior manager of a number of businesses, he holds a Graduate Diploma in Business Adminstration, Health Administration and a Company Director's Diploma.

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

Operating Results

The company entered into an agreement with Nik Anagnostou, proprietor of the Tarwin Lower Terry White Pharmacy Deppot to establish a Bendigo Bank Agency in Tarwin Lower, which commenced operation on 30th March 2011.

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 2011 $	Year ended 30 June 2010 $
	61,307	95,772

Remuneration Report

All Directors perform their duties solely in a voluntary capacity and do not receive or expect any form of remuneration.

There are no employees who are directly accountable and have responsibility for the strategic direction and operational management of the entity. Therefore no specified Executives remuneration requires disclosure.

	Year Ended 30 June 2011	
Dividends	**Cents**	**$**
Dividends paid in the year:		
Declared and paid during the period (unfranked)	4.00	30,000
5th anniversary special dividend (fully franked)	2.00	15,000

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.

Directors' report continued

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

Terrence William Hall is the owner of the bank branch premises at 16c Williams Street, Inverloch. The amount of rent and outgoings paid in 2011 was:$32,400 (2010: $31,200).

No other 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. 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			
			Audit		Marketing	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Alan Keith Gostelow	13	10	2	2	5	5
Terrence William Hall JP	13	10	2	2	5	4
Francis Barry McGarvey	13	8	-	-	5	3
Maxwell Alexander Warlow	13	12	2	2	-	-
Stephen Andrew McHugh	13	10	2	2	-	-
David Leonard Schultz	13	11	2	2	5	4
Domenic Anthony Brusamarello	13	11	2	1	5	3
Andrew Peter Lawson	3	2	-	-	-	-

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 Inverloch, Victoria on 28 July 2011.

Alan Keith Gostelow, Chairman

Auditor's independence declaration

Partners in success

Chartered Accountants

Lead Auditor's Independence Declaration under section 307C of the Corporations Act 2001 to the directors of Inverloch & District Financial Enterprises Limited

I declare, that to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

- no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

GRAEME STEWART
ANDREW FREWIN & STEWART
61-65 Bull Street, Bendigo, 3550

28th July 2011

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

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TAXATION • AUDIT • BUSINESS SERVICES • FINANCIAL PLANNING

Financial statements

Statement of Comprehensive Income for the Year Ended 30 June 2011

	Note	2011 $	2010 $
Revenues from ordinary activities	4	667,452	614,968
Employee benefits expense		(285,333)	(255,934)
Charitable donations, sponsorship, advertising and promotion		(113,470)	(65,100)
Occupancy and associated costs		(49,057)	(46,586)
Systems costs		(21,242)	(22,976)
Depreciation and amortisation expense	5	(17,010)	(11,341)
General administration expenses		(91,411)	(76,995)
Profit before income tax expense		**89,929**	**136,036**
Income tax expense	6	(28,622)	(40,264)
Profit after income tax expense		**61,307**	**95,772**
Total comprehensive income for the year		**61,307**	**95,772**
Earnings per share (cents per share)		**c**	**c**
- basic for profit for the year	22	8.17	12.77

The accompanying notes form part of these financial statements.

Balance Sheet
as at 30 June 2011

	Note	2011 $	2010 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	498,696	611,688
Trade and other receivables	8	27,217	36,151
Current tax asset	6	8,766	-
Total Current Assets		**534,679**	**647,839**
Non-Current Assets			
Property, plant and equipment	9	106,037	113,499
Intangible assets	10	101,452	37,500
Deferred tax assets	11	-	14,982
Total Non-Current Assets		**207,489**	**165,981**
Total Assets		**742,168**	**813,820**
LIABILITIES			
Current Liabilities			
Trade and other payables	12	5,530	26,355
Current tax liabilities	11	-	11,205
Provisions	13	-	58,333
Total Current Liabilities		**5,530**	**95,893**
Non-Current Liabilities			
Deferred tax liabilities	11	2,404	-
Total Non-Current Liabilities		**2,404**	**-**
Total Liabilities		**7,934**	**95,893**
Net Assets		**734,234**	**717,927**
Equity			
Issued capital	14	729,547	729,547
Retained Earnings/(Accumulated losses)	15	4,687	(11,620)
Total Equity		**734,234**	**717,927**

The accompanying notes form part of these financial statements.

Statement of Changes in Equity for the Year Ended 30 June 2011

	Issued Capital $	Retained Earnings $	Total Equity $
Balance at 1 July 2009	**729,547**	**(92,392)**	**637,155**
Total comprehensive income for the year	**-**	**95,772**	**95,772**
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(15,000)	(15,000)
Balance at 30 June 2010	**729,547**	**(11,620)**	**717,927**
Balance at 1 July 2010	**729,547**	**(11,620)**	**717,927**
Total comprehensive income for the year	**-**	**61,307**	**61,307**
Transactions with owners in their capacity as owners:			
Shares issued during period	-		-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(45,000)	(45,000)
Balance at 30 June 2011	**729,547**	**4,687**	**734,234**

The accompanying notes form part of these financial statements.

Statement of Cashflows for the Year Ended 30 June 2011

	Note	2011 $	2010 $
Cash Flows From Operating Activities			
Receipts from customers		660,552	408,294
Payments to suppliers and employees		(658,502)	(258,701)
Interest received		34,665	16,112
Income taxes paid		(31,207)	-
Net cash provided by operating activities	**16**	**5,508**	**165,705**
Cash Flows From Investing Activities			
Payments for property, plant and equipment		(4,077)	(1,310)
Payments for intangible assets		(69,423)	-
Proceeds from sale of investments		-	156,000
Net cash provided by/(used in) investing activities		**(73,500)**	**154,690**
Cash Flows From Financing Activities			
Dividends paid		(45,000)	(15,000)
Net cash used in financing activities		**(45,000)**	**(15,000)**
Net increase/(decrease) in cash held		**(112,992)**	**305,395**
Cash and cash equivalents at the beginning of the financial year		611,688	306,293
Cash and cash equivalents at the end of the financial year	**7(a)**	**498,696**	**611,688**

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2011

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, other authoritative pronouncements of the Australian Accounting Standard Boards and the Corporations Act 2001.

<u>Compliance with IFRS</u>

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

<u>Critical accounting estimates</u>

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.

<u>Financial statement presentation</u>

The company has applied revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The company has elected to present all items of income and expense recognised in the period in a single statement of comprehensive income.

<u>Historical cost convention</u>

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.

<u>Comparative figures</u>

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

<u>Adoption of new and revised Accounting Standards</u>

During the current year the entity has adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of the company.

Note 1. Summary of Significant Accounting Policies (continued)

a) Basis of Preparation (continued)

Adoption of new and revised Accounting Standards (continued)

- AASB 101 Presentation of Financial Statements

  In September 2007 the Australian Accounting Standards Board revised AASB 101, and as a result there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the company's financial statements.

- Disclosure impact

  Terminology changes – The revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

  Reporting changes in equity – The revised AASB 101 requires all changes in equity arising from transactions with owners in their capacity as owners to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

  Statement of comprehensive income – The revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

  The company's financial statements contain a single statement of comprehensive income.

  Other comprehensive income – The revised version of AASB 101 introduces the concept of "other comprehensive income" which comprises of income and expense that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

New Accounting Standards for application in future periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods, as follows:

- AASB 9: Financial Instruments and AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013)
- AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011)

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The company has determined these amendments will have no impact on the preparation of the financial statements and therefore they have not been applied.

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

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

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).

Note 1. Summary of Significant Accounting Policies (continued)

b) Revenue (continued)

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 be 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.

Note 1. Summary of Significant Accounting Policies (continued)

c) Income Tax (continued)

Deferred tax (continued)

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.

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.

Notes to the financial statements continued

Note 1. Summary of Significant Accounting Policies (continued)

g) Property, Plant and Equipment (continued)

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.

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

<u>Recognition and initial measurement</u>

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.

<u>Derecognition</u>

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.

<u>Classification and subsequent measurement</u>

(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.

Notes to the financial statements continued

Note 1. Summary of Significant Accounting Policies (continued)

k) Financial Instruments (continued)

Classification and subsequent measurement (continued)

(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.

Note 1. Summary of Significant Accounting Policies (continued)

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.

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.

Note 2. Financial Risk Management (continued)

(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%.

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 2011 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.

Note 3. Critical Accounting Estimates and Judgements (continued)

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.

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.

Note 3. Critical Accounting Estimates and Judgements (continued)

Impairment of assets (continued)

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

	2011 $	2010 $
Operating activities:		
- services commissions	633,166	573,862
- other revenue	-	-
Total revenue from operating activities	**633,166**	**573,862**
Non-operating activities:		
- interest received	34,286	24,106
- profit on sale of investments	-	17,000
Total revenue from non-operating activities	**34,286**	**41,106**
Total revenues from ordinary activities	**667,452**	**614,968**

Note 5. Expenses

	2011 $	2010 $
Depreciation of non-current assets:		
- plant and equipment	3,900	2,352
- leasehold improvements	7,639	6,989
Amortisation of non-current assets:		
- franchise agreement	2,578	2,000
- franchise renewal fee	2,893	-
	17,010	**11,341**

Notes to the financial statements continued

	Note	2011 $	2010 $

Note 6. Income Tax Expense

	Note	2011 $	2010 $
The components of tax expense comprise:			
- Current tax		11,236	11,205
- Movement in deferred tax		17,386	(16,561)
- Recoup of prior year tax loss		-	45,620
		28,622	**40,264**
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:			
Operating profit		89,929	136,036
Prima facie tax on profit from ordinary activities at 30%		26,979	40,811
Add tax effect of:			
- non-deductible expenses		1,643	681
- timing difference expenses		(17,386)	16,561
- other deductible expenses		-	(1,228)
		11,236	**56,825**
Movement in deferred tax	11	17,386	29,059
Recoupment of prior year tax losses		-	(45,620)
		28,622	**40,264**
Inccome tax refund		**8,766**	**-**

Note 7. Cash and Cash Equivalents

	Note	2011 $	2010 $
Cash at bank and on hand		3,196	51,688
Term deposits		495,500	560,000
		498,696	**611,688**
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		3,196	51,688
Term deposits		495,500	560,000
		498,696	**611,688**

	2011 $	2010 $

Note 8. Trade and Other Receivables

	2011 $	2010 $
Trade receivables	14,056	24,430
Other receivables and accruals	13,161	11,721
	27,217	**36,151**

Note 9. Property, Plant and Equipment

	2011 $	2010 $
Plant and equipment		
At cost	45,746	41,669
Less accumulated depreciation	(17,669)	(13,769)
	28,077	**27,900**
Leasehold improvements		
At cost	112,848	112,848
Less accumulated depreciation	(34,888)	(27,249)
	77,960	**85,599**
Total written down amount	**106,037**	**113,499**
Movements in carrying amounts:		
Plant and equipment		
Carrying amount at beginning	27,900	17,930
Additions	4,077	12,322
Disposals	-	-
Less: depreciation expense	(3,900)	(2,352)
Carrying amount at end	**28,077**	**27,900**
Leasehold improvements		
Carrying amount at beginning	85,599	88,239
Additions	-	4,349
Disposals	-	-
Less: depreciation expense	(7,639)	(6,989)
Carrying amount at end	**77,960**	**85,599**
Total written down amount	**106,037**	**113,499**

	2011 $	2010 $

Note 10. Intangible Assets

	2011 $	2010 $
Franchise fee		
At cost	21,570	10,000
Less: accumulated amortisation	(10,578)	(8,000)
	10,992	**2,000**
Renewal processing fee		
At cost	57,853	-
Less: accumulated amortisation	(2,893)	-
	54,960	**-**
Goodwill		
At cost	35,500	35,500
Total written down amount	**101,452**	**37,500**

Note 11. Tax

	2011 $	2010 $
Current:		
Income tax payable	**-**	**11,205**
Non-Current:		
Deferred tax assets		
- accruals	-	-
- provisions	-	17,500
- tax losses carried forward	-	-
	-	**17,500**
Deferred tax liability		
- accruals	2,404	2,518
- deductible prepayments	-	-
	2,404	**2,518**
Net deferred tax asset/(liabiltiy)	**(2,404)**	**14,982**
Movement in deferred tax charged to statement of comprehensive income	**17,386**	**29,059**

Notes to the financial statements continued

	2011 $	2010 $

Note 12. Trade and Other Payables

	2011 $	2010 $
Trade creditors	-	7,693
Other creditors and accruals	5,530	18,662
	5,530	**26,355**

Note 13. Provisions

Current:

	2011 $	2010 $
Provision for sponsorship	**-**	**58,333**

Note 14. Contributed Equity

	2011 $	2010 $
750,010 Ordinary shares fully paid (2010: 750,010)	750,010	750,010
Less: equity raising expenses	(20,463)	(20,463)
	729,547	**729,547**

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).

Note 14. Contributed Equity (continued)

Rights attached to shares (continued)

(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 187. As at the date of this report, the company had 214 shareholders.

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

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

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

The Bendigo Stock Exchange (BSX) 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 BSX.

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.

	2011 $	2010 $

Note 15. Retained Earnings/Accumulated Losses

	2011 $	2010 $
Balance at the beginning of the financial year	(11,620)	(92,392)
Net profit from ordinary activities after income tax	61,307	95,772
Dividends paid or provided for	(45,000)	(15,000)
Balance at the end of the financial year	**4,687**	**(11,620)**

Note 16. Statement of Cashflows

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

	2011 $	2010 $
Profit from ordinary activities after income tax	61,307	95,772
Non cash items:		
- depreciation	11,539	9,341
- amortisation	5,471	2,000
- gain on investments		(17,000)
Changes in assets and liabilities:		
- (increase)/decrease in receivables	8,935	(14,004)
- decrease in other assets	17,386	29,057
- decrease in payables	(20,824)	(668)
-increase/(decrease) in provisions	(58,333)	50,000
-increase/(decrease) in current tax liabilities	(19,973)	11,207
Net cashflows provided by operating activities	**5,508**	**165,705**

Note 17. Leases

Operating lease commitments

	2011 $	2010 $
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable - minimum lease payments		
- not later than 12 months	36,000	23,400
- between 12 months and 5 years	135,000	-
- greater than 5 years	-	-
	171,000	**23,400**

Note 17. Leases (continued)

The branch premises lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. The current lease expires on 25 March 2016, with options for two future terms of five years each, to be exercised three months prior to the expiry date.

	2011 $	2010 $
Note 18. Auditors' Remuneration		
Amounts received or due and receivable by the auditor of the company for:		
- audit and review services	4,500	4,500
- share registry services	2,766	4,004
- non audit services	2,050	1,223
	9,316	**9,727**

Note 19. Director and Related Party Disclosures

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

Alan Keith Gostelow

Terrence William Hall JP

Francis Barry McGarvey

Maxwell Alexander Warlow

Stephen Andrew McHugh

David Leonard Schultz

Domenic Anthony Brusamarello

Andrew Peter Lawson (Appointed 18 November 2010, Resigned 23 March 2011)

Terrence William Hall is the owner of the bank branch premises at 16c Williams Street, Inverloch. The amount of rent and outgoings paid in 2011 was: $32,400 (2010: $31,200).

No other 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.

Note 19. Director and Related Party Disclosures (continued)

Directors Shareholdings	**2011**	**2010**
Alan Keith Gostelow	501	501
Terrence William Hall JP	32,001	32,001
Francis Barry McGarvey	2,001	-
Maxwell Alexander Warlow	-	-
Stephen Andrew McHugh	-	-
David Leonard Schultz	500	500
Domenic Anthony Brusamarello	5,000	5,000
Andrew Peter Lawson (Appointed 18 November 2010, Resigned 23 March 2011)	-	-

There was no movement in directors shareholdings during the year.

Note 20. Dividends Paid or Provided

	2011 $	**2010 $**
a. Dividends paid during the year		
Current year dividend		
Unfranked dividend - 4 cents (2010: 4 cents) per share	(30,000)	(15,000)
Special franked dividend - 2 cents	(15,000)	-
	(45,000)	**(15,000)**
b. Franking account balance		
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	24,776	-
- franking credits that will arise from payment of income tax payable as at the end of the financial year	(8,766)	-
- 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:	**16,010**	**-**
- 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	**16,010**	**-**

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.

	2011 $	2010 $
Note 22. Earnings Per Share		
(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	61,307	95,772
	Number	**Number**
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	750,010	750,010

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 Inverloch and surrounding district of Victoria 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	Principal Place of Business
16C Williams Street	16C Williams Street
Inverloch Vic 3996	Inverloch Vic 3996

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	
			1 year or less		Over 1 to 5 years		Over 5 years					
	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $	2011 %	2010 %
Financial Assets												
Cash and cash equivalents	3,196	51,688	495,500	560,000	-	-	-	-	-	-	5.81	5.00
Receivables	-	-	-	-	-	-	-	-	27,217	36,151	N/A	N/A
Financial Liabilities												
Payables	-	-	-	-	-	-	-	-	5,530	26,354	N/A	N/A

Directors' declaration

In accordance with a resolution of the directors of Inverloch & District Financial Enterprises 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 2011 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.

Alan Keith Gostelow, Chairman

Signed on the 28th of July 2011.

Independent audit report

Partners in success

Chartered Accountants

Independent Auditor's Report To The Members Of Inverloch & District Financial Enterprises Limited

Report on the Financial Report

We have audited the accompanying financial report of Inverloch & District Financial Enterprises Limited, which comprises the balance sheet as at 30 June 2011, 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.

P: (03) 5443 0344 | F: (03) 5443 5304 | 61-65 Bull St./PO Box 454 Bendigo Vic. 3552 | afs@afsbendigo.com.au | www.afsbendigo.com.au

TAXATION • AUDIT • BUSINESS SERVICES • FINANCIAL PLANNING

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 Inverloch & District Financial Enterprises 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 2011 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.

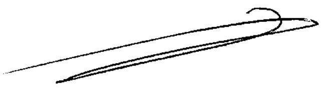
2) The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2011. 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 Inverloch & District Financial Enterprises Limited for the year ended 30 June 2011, complies with section 300A of the Corporations Act 2001.



GRAEME STEWART
ANDREW FREWIN & STEWART
61-65 Bull Street, Bendigo, 3550

28th July 2011

BSX report

In addition to information provided in accordance with statutory requirements (Corporations Act S314) of a Financial report, Directors' report and Auditors report all BSX listed entities are obliged to report on a number of other items in accordance with BSX Listing Rule 3.17. Accordingly the Directors of Inverloch & District Financial Enterprises report on those items not included elsewhere in the Annual Report as follows:

(a) This information is current as at 12 September 2011.

(b) There are no material differences between the information in the Company's Annexure 3A and the information in the financial documents contained in this Annual Report.

(c) The Company ascribes to the ASX Corporate Governance Council "Principles of Good Corporate Governance and Best Practice Recommendations" insofar as they apply to a small listed entity. In particular the Company has established a Finance Audit & Governance Committee of the Board to fulfil its responsibilities to Bendigo and Adelaide Bank Ltd, shareholders, customers and other stakeholders by exercising due care, diligence and skill.

(d) The Company has no substantial shareholders.

(e) The Company has 214 ordinary shareholders for 750,010 shares.

(f) Shareholders are entitled to one vote only for their entire shareholding.

(g) The number of shareholders, by size of holding is:

Size of holding	# of holders	# of shares
1 - 1,000	109	71,653
1,001 - 5,000	78	240,853
5,001 - 10,000	21	202,500
10,001 - 100,000	6	235,004
100,001 and over	Nil	Nil
Total	**214**	**750,010**

(h) The Company Share Register records 3 shareholders who hold non marketable share parcels.

(i) Details of the 10 largest holders of shares are:

Rank	Shareholder	# of ordinary shares	% of ordinary shares
1	Croweaters Super Fund a/c	50,001	6.7%
2	South Coast Super Fund a/c	50,000	6.7%
3	Mr Geoff & Mrs Rosemary Brooks	50,000	6.7%
4	Hall Family Super Fund a/c	30,001	4.0%
5	Walsh Family Super Fund a/c	30,001	4.0%
6	Jeeralang Design P/L Super Fund a/c	25,001	3.3%
7	Mrs Denise Beard	10,000	1.3%
8	A&P Brown Family Super Fund	10,000	1.3%

BSX report continued

(i) Details of the 10 largest holders of shares are (continued):

Rank	Shareholder	# of Ordinary Shares	% of Ordinary Shares
9	Mr Grant Caldwell	10,000	1.3%
10	Mr Vincent & Mrs Miriam Dowling	10,000	1.3%
Total		**275,004**	**36.7%**

(j) The Company Secretary is Alan Gostelow.

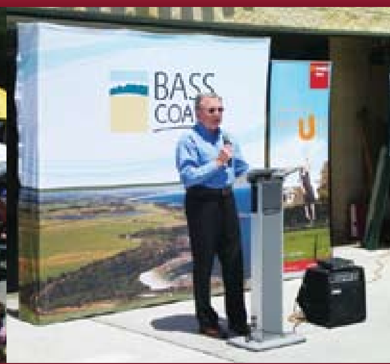
(k) The Telephone number of the Registered Office is: (03) 5674-2800.

(l) The Address and Telephone Number for the Company's Share Registry is:

I&DFEL Share Registry
AFS & Associates
61-65 Bull Street,
Bendigo VIC 3550
Phone: (03) 5443 0344
Email: shareregistry@afsbendigo.com.au

(m) The Company has no restricted securities on issue.

(n) The Company has issued 750,010 shares to 214 shareholders.



Inverloch & District **Community Bank®** Branch
16C Williams Street, Inverloch VIC 3996
Phone: (03) 5674 2800 Fax: (03) 5674 3077

Franchisee: Inverloch & District Financial Enterprises Limited
16C Williams Street, Inverloch VIC 3996
Phone: (03) 5674 2800 Fax: (03) 5674 3077
ABN: 13 117 672 590

www.bendigobank.com.au/inverloch
Bendigo and Adelaide Bank Limited,
The Bendigo Centre, Bendigo VIC 3550
ABN 11 068 049 178. AFSL 237879.
(BMPAR11105) (09/11)

Bendigo Bank