Inverloch & District **Community Bank®** Branch


# annual report 2012

Inverloch & District
Financial Enterprises Limited

ABN 13 117 672 590

# Contents

# Chairman's report

## For year ending 30 June 2012

**The year in review**

Following on from the Global Financial Crisis (GFC) business growth for the past financial year has been constrained. Although there was a decline in business of around 7% early in the financial year this was regained throughout remainder of the year. Directors are pleased to be able to report to shareholders that for the 2011/12 financial year the company achieved a profit after income tax of $60,856, resulting in earnings per share of 8.11 cents. This was achieved through containment of costs commensurate with the income achieved. This outcome has also improved shareholder equity by a minor amount to $735,008.

**Business development**

During the year Directors embarked upon a community consultation process to determine community priorities into the near future. Through this process and the subsequent engagement with community groups, Directors anticipate that the initiative will result in business growth over time.

The initiative to establish and support an agency in Tarwin Lower has made a minor contribution to our market share in this important adjunct area. Directors continue to work with both the agent, 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 undergone a change throughout the year with three Directors leaving and another three Directors joining the Board. On behalf of the Board I wish to thank the Directors who retired in the past financial year, Terry Hall, Frank McGarvey and Steve McHugh. The new Directors elected to the Board, Tristan Creed, David Grimmond and Susan Ruffin, have brought an enhanced range of skills to those provided by other existing Directors and they all continue to bring their experience and knowledge to bear in the governance and effective operation of the company. I 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 Tristan Creed.

**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 | $8,552 |
| 2007/08 | $30,402 |
| 2008/09 | $31,363 |
| 2009/10 | $60,403 |
| 2010/11 | $65,095 |
| 2011/12 | $29,440 |
| **Grand total** | **$225,618** |

*Note: Some annual totals included in the table above vary from those provided in previous years due to previous categorisation errors.

In October 2011, the company conducted a Community Forum to identify community needs into the future. The results of the forum were distributed to attendees who had provided contact details and the information gathered will assist the company to identify projects for future consideration as well as managing community expectations.

**The year to come and beyond**

It is anticipated that funds under management are likely to remain relatively stable as local community initiatives encourage new customers come to fruition. However, it is anticipated that there will be strong competition for business and the company will continue our focus on the point of difference for our business to encourage new customers, as well as ensuring we meet the needs of existing customers. The company will continue to strive to engage with the broad spectrum of community groups and sporting clubs and encourage them to become dedicated customers and "champions" of the Inverloch & District **Community Bank®** Branch and to this end will introduce an incentive scheme for these groups where business growth is achieved through their recommendation. The company will focus on the rural sector of the community and to this end the Board will conduct two farming forums during the forthcoming year, to present contemporary agricultural and funding information to dairying and grazier farmers across the region. The Board is also conscious of the need to ensure that the returns to the business and our partners Bendigo and Adelaide Bank are fair and equitable.

**The Branch team**

Although the year saw a slight decline in the retail and consumer lending and banking activities, business banking activity 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 that shareholders require some reward for their forbearance during the formative years for the Company and so we were pleased to be able to deliver a dividend of eight cents per share last year. We look forward to further recognition of 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 strive to raise the level of awareness about community banking and the benefits that can be achieved for community infrastructure and growth.

**Alan Gostelow**
**Chairman**

# Manager's report

## For year ending 30 June 2012

**Business**

In the six years that have passed by, our **Community Bank®** branch now has over 3,000 accounts and $75 million of combined business on the books thanks to the ongoing support of our customers and community groups.

**Staff**

During the year we farewelled mother to be Shari Johnson and staff member Annette Eldridge. We welcomed Emma Earl and Dee Candy to the branch team. We still have the familiar faces of Anngie Krom and Denise Wilson along with the specialist services of our Business Banker – Dean Thompson and Financial Planner – Mark Lilley. Many thanks go to my hardworking team for their contributions throughout the year.

**Highlights**

During November 2011 we held a Community Forum which identified and prioritised community needs – we now plan to work with those groups to achieve outcomes. A well attended business breakfast was held, and we also supported another Tour de Tarwin with a successful event raising funds for the Tarwin CFA, and the Inverloch Primary School with their showcase Permaculture Garden.

**Acknowledgements**

Also of note is the retirement of Terry Hall, Frank McGarvey and Steve McHugh – thank you for your individual contributions. Another team to be acknowledged and thanked is our Board of Directors efficiently led by our Chairman – Alan Gostelow. Our Directors volunteer their time attending numerous meetings and working with community groups to ensure community outcomes.

We ask that you continue to support us with your banking business and recommend us to family, friends and community groups so we can continue making a difference for our community – banking with your **Community Bank®** branch is good for U and your community.

**Jackie Laurie**
**Branch Manager**

# Bendigo and Adelaide Bank report

## For year ending 30 June 2012

Thanks to your support as shareholders the **Community Bank®** network has achieved a significant milestone this year, contributing more than $80 million to support the communities these unique companies operate within.

This figure was almost unimaginable when the **Community Bank®** model was first launched in 1998, in partnership with the people from the small Victorian wheat farming towns of Rupanyup and Minyip. For these communities the **Community Bank®** model was seen as a way to restore branch banking services to the towns, after the last of the major banks closed its services. However, in the years since the **Community Bank®** model has become so much more.

In the past financial year a further 20 **Community Bank®** branches have opened, this growth is in-line with our forecast and consistent with what we have seen in recent years. Demand for the model remains strong and there are currently another 32 **Community Bank®** sites in development, with many more conversations happening with communities Australia wide.

At the end of the financial year 2011/12 the **Community Bank®** network had achieved the following:

- Returns to community – $80 million
- **Community Bank®** branches – 295
- **Community Bank®** branch staff – more than 1,400
- **Community Bank®** branch Directors – 1,905
- Volume footings – $21.75 billion
- Customers – 500,000
- Shareholders – 71,197
- Dividends paid to shareholders – $28.8 million

Almost 300 communities have now partnered with Bendigo and Adelaide Bank, so they can not only enhance banking services, but more importantly aggregate the profits their banking business generates and reinvest it in local groups and projects that will ultimately strengthen their community.

In the past 14 years we have witnessed the **Community Bank®** network's returns to communities grow exponentially each year, with $470,000 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.

Today that figure is an astonishing $80 million and with the continued growth and popularity of the **Community Bank®** model, returns should top $100 million by the end of 2013. These dollars add up to new community facilities, improved services, more opportunities for community engagement activities and generally speaking, a more prosperous society.

The communities we partner with also have access to Bendigo and Adelaide Bank's extensive range of other community building solutions including Community Enterprise Foundation™ (philanthropic arm), Community Sector Banking (banking service for not-for-profit organisations), Generation Green™ (environment and sustainability initiative), Community Telco (telecommunications solution), sponsorships, scholarships and Community Enterprises that provide **Community Bank®** companies with further development options.

In Bendigo and Adelaide Bank, your **Community Bank®** company has a committed and strong partner and over the last financial year our company has also seen much success.

# Bendigo and Adelaide Bank report (continued)

Last December, our Bank joined the ranks of Australia's A-rated banks following an upgrade announced by Standard & Poor's. Its decision to raise our long-term rating from BBB+ to A– means the Bank (and its **Community Bank®** partners) are now rated 'A' by all three of the world's leading credit rating agencies. This is a huge boost to the Bank and will allow us to access new funding opportunities. It will also enable our group to service supporters who were precluded from banking with us because we were not A rated.

The rating upgrade is a welcome boost for the Bank and its partners at a time when funding is expensive and likely to remain so, margins have been eroded across the industry, credit growth is sluggish at best and subsequently, the profitability of banks remains under pressure.

Not surprisingly, these factors continue to place pressure on our Bank's margin and as **Community Bank®** margin share is still in part based on fixed trails, this is continuing to reflect a skew in margin share between the Bank and its **Community Bank®** partners.

We've been working with the **Community Bank®** network to take action to reduce this imbalance (which is in favour of the **Community Bank®** partners) and see the share of revenue on core banking products closely aligned to the key principal of 50/50 revenue share. Recent market developments are challenging this goal, but the Bank and its partners remain committed to addressing this.

It's Bendigo and Adelaide Bank's vision to be Australia's leading customer-connected bank. We believe our strength comes from our focus on the success of our customers, people, partners and communities. We take a 100-year view of our business; we listen and respect every customer's choice, needs and objectives. We partner for sustainable long-term outcomes and aim to be relevant, connected and valued.

This is what drives each and every one of our people and we invite you as **Community Bank®** shareholders to support us as we work with our partners to deliver on our goals and ensure our sustained and shared success.

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 banking and the role it plays in modern society.

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 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:

**Alan Keith Gostelow**
Chairman/Secretary
Age: 69
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

**Tristan Andrew Creed**
Treasurer (Appointed 17th of November 2011)
Age: 31
Accountant
CA & Tax Agent. Current Director of Feathertop Business Services. Bachelor of Business (Accountancy) and Graduate Diploma (CA).
Interest in shares: Nil

**Maxwell Alexander Warlow**
Director
Age: 63
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

**David Leonard Schultz**
Director
Age: 61
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: 51
Self Employed
Self Employed, Manager and Business Consultant, President Inverloch Tourism Association Inc., President Inverloch Food and Wine Festival Inc.
Interest in shares: 5,000

**Susan Joy Ruffin**
Director (Appointed 17th of November 2011)
Age:58
Lawyer
BA (Honours) LLB
Interest in shares: Nil

**Directors (continued)**

**David James Grimmond**
Director (Appointed 17th of November 2011)
Age: 57
Operations Manager
Operations Manager with Degremont Thiess Services Joint Venture. General Manager of Burra Foods Australia from 2007-2011. Has a masters degree in Agribusiness, Graduate diploma in Microbiology and Advanced diploma of Dairy Technology. Office Bearer with the Gippsland Yacht Club. Former Vice President of Alaska Milk Corporation.
Interest in shares: Nil

**Stephen Andrew McHugh**
Director (Resigned 17th of November 2011)
Age: 63
Retired Accountant
Diploma of Business Studies (Accounting) Extensive experience in Corporate Auditing with the Australian Taxation Office.
Interest in shares: Nil

**Francis Barry McGarvey**
Director (Resigned 17th of November 2011)
Age: 75
Retired
Former Primary Producer
Interests in shares: 2,001

**Terrence William Hall JP**
Director (Resigned 24th of August 2011)
Age: 69
Retired
25 years experience in finance industry including merchant and retail banking. Former Chairman, Banking and Local Government Councillor, Shire President.
Interest in shares: 32,001

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

**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 Administration, 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**

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

| | Year ended 30 June 2012 $ | Year ended 30 June 2011 $ |
|---|---|---|
| | 60,856 | 61,307 |

**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.

| Dividends | Year Ended 30 June 2012 | |
|---|---|---|
| | Cents | $ |
| Dividends paid in the year: | | |
| Declared and paid during the period (fully-franked) | 8.00 | 60,002 |

**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**

Terrence William Hall is the owner of the bank branch premises at 16c Williams Street, Inverloch. The amount of rent and outgoings paid in 2012 was:$36,372 (2011: $32,400).

Tristan Andrew Creed, proprietor of Feathertop Business Services, provided accounting services to the company. The fees amounted to $12,500 (2011: $-).

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 | 11 | 10 | 5 | 5 | 11 | 10 |
| Tristan Andrew Creed (Appointed 17th of November 2011) | 7 | 6 | 3 | 3 | 6 | 6 |
| Maxwell Alexander Warlow | 11 | 9 | 5 | 4 | - | - |
| David Leonard Schultz | 11 | 10 | - | - | 11 | 11 |
| Domenic Anthony Brusamarello | 11 | 6 | - | - | 11 | 7 |
| Susan Joy Ruffin (Appointed 17th of November 2011) | 7 | 5 | 3 | 3 | - | - |
| David James Grimmond (Appointed 17th of November 2011) | 7 | 5 | - | - | 6 | 6 |
| Stephen Andrew McHugh (Resigned 17th of November 2011) | 4 | 4 | 2 | 2 | - | - |
| Francis Barry McGarvey (Resigned 17th of November 2011) | 4 | 1 | - | - | - | - |
| Terrence William Hall JP (Resigned 24th of August 2011) | 2 | 2 | 1 | 1 | - | - |

**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;

# Directors' report (continued)

**Non Audit Services (continued)**

- 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 12.

Signed in accordance with a resolution of the board of directors at Inverloch, Victoria on 31 August 2012.

**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 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.

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

Dated: 31 August 2012

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

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# Financial statements

## Statement of Comprehensive Income for the Year Ended 30 June 2012

| | Note | 2012 $ | 2011 $ |
|---|---|---|---|
| Revenues from ordinary activities | 4 | 665,273 | 667,452 |
| Employee benefits expense | | (307,419) | (285,333) |
| Charitable donations, sponsorship, advertising and promotion | | (66,264) | (113,470) |
| Occupancy and associated costs | | (57,972) | (49,057) |
| Systems costs | | (20,465) | (21,242) |
| Depreciation and amortisation expense | 5 | (25,155) | (17,010) |
| General administration expenses | | (102,548) | (91,411) |
| **Profit before income tax expense** | | **85,450** | **89,929** |
| Income tax expense | 6 | (24,594) | (28,622) |
| **Profit after income tax expense** | | **60,856** | **61,307** |
| **Total comprehensive income for the year** | | **60,856** | **61,307** |
| | | | |
| **Earnings per share (cents per share)** | | **c** | **c** |
| - basic for profit for the year | 21 | 8.11 | 8.17 |

The accompanying notes form part of these financial statements.

## Balance Sheet
## as at 30 June 2012

| | Note | 2012 $ | 2011 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 7 | 525,612 | 498,696 |
| Trade and other receivables | 8 | 36,104 | 27,217 |
| Current tax asset | 11 | 6,050 | 8,766 |
| **Total Current Assets** | | **567,766** | **534,679** |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 9 | 95,710 | 106,037 |
| Intangible assets | 10 | 87,567 | 101,452 |
| **Total Non-Current Assets** | | **183,277** | **207,489** |
| **Total Assets** | | **751,043** | **742,168** |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 12 | 12,455 | 5,530 |
| **Total Current Liabilities** | | **12,455** | **5,530** |
| **Non-Current Liabilities** | | | |
| Deferred tax liabilities | 11 | 3,500 | 2,404 |
| **Total Non-Current Liabilities** | | **3,500** | **2,404** |
| **Total Liabilities** | | **15,955** | **7,934** |
| **Net Assets** | | **735,088** | **734,234** |
| **Equity** | | | |
| Issued capital | 13 | 729,547 | 729,547 |
| Retained Earnings | 14 | 5,541 | 4,687 |
| **Total Equity** | | **735,088** | **734,234** |

The accompanying notes form part of these financial statements.

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

| | Issued Capital $ | Retained Earnings $ $ | Total Equity |
|---|---|---|---|
| **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** |
| **Balance at 1 July 2011** | **729,547** | **4,687** | **734,234** |
| **Total comprehensive income for the year** | **-** | **60,856** | **60,856** |
| **Transactions with owners in their capacity as owners:** | | | |
| Shares issued during period | - | | - |
| Costs of issuing shares | - | - | - |
| Dividends provided for or paid | - | (60,002) | (60,002) |
| **Balance at 30 June 2012** | **729,547** | **5,541** | **735,088** |

The accompanying notes form part of these financial statements.

## Statement of Cashflows for the Year Ended 30 June 2012

| | Note | 2012 $ | 2011 $ |
|---|---|---|---|
| **Cash Flows From Operating Activities** | | | |
| Receipts from customers | | 697,522 | 660,552 |
| Payments to suppliers and employees | | (617,004) | (658,502) |
| Interest received | | 28,125 | 34,665 |
| Income taxes paid | | (20,782) | (31,207) |
| **Net cash provided by operating activities** | **15** | **87,861** | **5,508** |
| **Cash Flows From Investing Activities** | | | |
| Payments for property, plant and equipment | | (943) | (4,077) |
| Payments for intangible assets | | - | (69,423) |
| **Net cash used in investing activities** | | **(943)** | **(73,500)** |
| **Cash Flows From Financing Activities** | | | |
| Dividends paid | | (60,002) | (45,000) |
| **Net cash used in financing activities** | | **(60,002)** | **(45,000)** |
| **Net increase/(decrease) in cash held** | | **26,916** | **(112,992)** |
| Cash and cash equivalents at the beginning of the financial year | | 498,696 | 611,688 |
| **Cash and cash equivalents at the end of the financial year** | **7(a)** | **525,612** | **498,696** |

The accompanying notes form part of these financial statements.

# Notes to the financial statements

## For year ended 30 June 2012

## Note 1. Summary of Significant Accounting Policies

**a) Basis of Preparation**

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

Compliance with IFRS

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

Critical accounting estimates

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

Historical cost convention

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

Comparative figures

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

Adoption of new and revised Accounting Standards

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

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

Economic dependency - Bendigo and Adelaide Bank Limited

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

## Note 1. Summary of Significant Accounting Policies (continued)

**a) Basis of Preparation (continued)**

Economic dependency - Bendigo and Adelaide Bank Limited (continued)

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

All deposits are made with Bendigo and Adelaide Bank Limited, and all personal and investment products are products of Bendigo and Adelaide Bank Limited, with the company facilitating the provision of those products. All loans, leases or hire purchase transactions, issues of new credit or debit cards, temporary or bridging finance and any other transaction that involves creating a new debt, or increasing or changing the terms of an existing debt owed to Bendigo and Adelaide Bank Limited, must be approved by Bendigo and Adelaide Bank Limited. All credit transactions are made with Bendigo and Adelaide Bank Limited, and all credit products are products of Bendigo and Adelaide Bank Limited.

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

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

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

**b) Revenue**

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

Revenue calculation

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

## Note 1. Summary of Significant Accounting Policies (continued)

**b) Revenue (continued)**

Revenue calculation (continued)

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

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

**c) Income Tax**

Current tax

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

Deferred tax

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

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

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

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

## Note 1. Summary of Significant Accounting Policies (continued)

**c) Income Tax (continued)**

Current and deferred tax for the period

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

**d) Employee Entitlements**

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

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

**e) Cash and Cash Equivalents**

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

**f) Trade Receivables and Payables**

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

**g) Property, Plant and Equipment**

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

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

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

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

## Note 1. Summary of Significant Accounting Policies (continued)

**h) Intangibles**

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

**i) Payment Terms**

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

**j) Borrowings**

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

**k) Financial Instruments**

Recognition and initial measurement

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

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

Derecognition

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

Classification and subsequent measurement

(i) Loans and receivables

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

(ii) Held-to-maturity investments

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

(iii) Financial liabilities

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

Impairment

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

## Note 1. Summary of Significant Accounting Policies (continued)

**l) Leases**

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

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

**m) Provisions**

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions 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.

**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.

**(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%.

## Note 2. Financial Risk Management (continued)

**(vi) Capital management (continued)**

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

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

## Note 3. Critical Accounting Estimates and Judgements

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

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

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

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

**Taxation**

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

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

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

**Estimation of useful lives of assets**

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

**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.

## Note 3. Critical Accounting Estimates and Judgements (continued)

**Goodwill (continued)**

The calculations require the use of assumptions.

**Impairment of assets**

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

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

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

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

| | 2012 $ | 2011 $ |
|---|---|---|

## Note 4. Revenue from Ordinary Activities

| | | |
|---|---|---|
| Operating activities: | | |
| - services commissions | 637,148 | 633,166 |
| - other revenue | - | - |
| **Total revenue from operating activities** | **637,148** | **633,166** |
| Non-operating activities: | | |
| - interest received | 28,125 | 34,286 |
| **Total revenue from non-operating activities** | **28,125** | **34,286** |
| **Total revenues from ordinary activities** | **665,273** | **667,452** |

| | Note | 2012 $ | 2011 $ |
|---|---|---|---|

## Note 5. Expenses

| | Note | 2012 $ | 2011 $ |
|---|---|---|---|
| Bad debts written off | | 155 | 350 |
| Depreciation of non-current assets: | | | |
| - plant and equipment | | 3,564 | 3,900 |
| - leasehold improvements | | 7,706 | 7,639 |
| Amortisation of non-current assets: | | | |
| - franchise agreement | | 2,314 | 2,578 |
| - franchise renewal fee | | 11,571 | 2,893 |
| | | **25,155** | **17,010** |

## Note 6. Income Tax Expense

| | Note | 2012 $ | 2011 $ |
|---|---|---|---|
| The components of tax expense comprise: | | | |
| - Current tax | | 24,539 | 11,236 |
| - Movement in deferred tax | | 1,096 | 17,386 |
| - Adjustment to tax expense of prior periods | | (1,041) | - |
| | | **24,594** | **28,622** |
| The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows: | | | |
| Operating profit | | 85,450 | 89,929 |
| Prima facie tax on profit from ordinary activities at 30% | | 25,635 | 26,979 |
| Add tax effect of: | | | |
| - non-deductible expenses | | - | 1,643 |
| - timing difference expenses | | (1,096) | (17,386) |
| | | **24,539** | **11,236** |
| Movement in deferred tax | 11 | 1,096 | 17,386 |
| Adjustment to tax expense of prior periods | | (1,041) | - |
| | | **24,594** | **28,622** |

## Note 7. Cash and Cash Equivalents

| | Note | 2012 $ | 2011 $ |
|---|---|---|---|
| Cash at bank and on hand | | 8,912 | 3,196 |
| Term deposits | | 516,700 | 495,500 |
| | | **525,612** | **498,696** |

| | 2012 $ | 2011 $ |
|---|---|---|

## Note 7. Cash and Cash Equivalents (continued)

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** | 2012 $ | 2011 $ |
|---|---|---|
| Cash at bank and on hand | 8,912 | 3,196 |
| Term deposits | 516,700 | 495,500 |
| | **525,612** | **498,696** |

## Note 8. Trade and Other Receivables

| | 2012 $ | 2011 $ |
|---|---|---|
| Trade receivables | 23,108 | 14,056 |
| Other receivables and accruals | 12,996 | 13,161 |
| | **36,104** | **27,217** |

## Note 9. Property, Plant and Equipment

| | 2012 $ | 2011 $ |
|---|---|---|
| **Plant and equipment** | | |
| At cost | 45,954 | 45,746 |
| Less accumulated depreciation | (21,233) | (17,669) |
| | **24,721** | **28,077** |
| **Leasehold improvements** | | |
| At cost | 113,583 | 112,848 |
| Less accumulated depreciation | (42,594) | (34,888) |
| | **70,989** | **77,960** |
| **Total written down amount** | **95,710** | **106,037** |
| **Movements in carrying amounts:** | | |
| **Plant and equipment** | | |
| Carrying amount at beginning | 28,077 | 27,900 |
| Additions | 208 | 4,077 |
| Less: depreciation expense | (3,564) | (3,900) |
| **Carrying amount at end** | **24,721** | **28,077** |

| | 2012 $ | 2011 $ |
|---|---|---|
| **Note 9. Property, Plant and Equipment (continued)** | | |
| **Leasehold improvements** | | |
| Carrying amount at beginning | 77,960 | 85,599 |
| Additions | 735 | - |
| Less: depreciation expense | (7,706) | (7,639) |
| **Carrying amount at end** | **70,989** | **77,960** |
| **Total written down amount** | **95,710** | **106,037** |

## Note 10. Intangible Assets

| | 2012 $ | 2011 $ |
|---|---|---|
| **Franchise fee** | | |
| At cost | 21,570 | 21,570 |
| Less: accumulated amortisation | (12,893) | (10,578) |
| | **8,677** | **10,992** |
| **Renewal processing fee** | | |
| At cost | 57,853 | 57,853 |
| Less: accumulated amortisation | (14,463) | (2,893) |
| | **43,390** | **54,960** |
| **Goodwill** | | |
| At cost | 35,500 | 35,500 |
| **Total written down amount** | **87,567** | **101,452** |

## Note 11. Tax

| | 2012 $ | 2011 $ |
|---|---|---|
| **Current:** | | |
| **Income tax refundable** | **6,050** | **8,766** |
| **Non-Current:** | | |
| **Deferred tax liability** | | |
| - accruals | 1,980 | 2,404 |
| - deductible prepayments | 1,520 | - |
| | **3,500** | **2,404** |
| **Net deferred tax asset/(liability)** | **(3,500)** | **(2,404)** |
| **Movement in deferred tax charged to statement of comprehensive income** | **1,096** | **17,386** |

| | 2012 $ | 2011 $ |
|---|---|---|

## Note 12. Trade and Other Payables

| | 2012 $ | 2011 $ |
|---|---|---|
| Trade creditors | 9,155 | - |
| Other creditors and accruals | 3,300 | 5,530 |
| | **12,455** | **5,530** |

## Note 13. Contributed Equity

| | 2012 $ | 2011 $ |
|---|---|---|
| 750,010 Ordinary shares fully paid (2011: 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).

(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.

## Note 13. Contributed Equity (continued)

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

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

## Note 14. Retained Earnings

| | 2012 $ | 2011 $ |
|---|---|---|
| Balance at the beginning of the financial year | 4,687 | (11,620) |
| Net profit from ordinary activities after income tax | 60,856 | 61,307 |
| Dividends paid or provided for | (60,002) | (45,000) |
| **Balance at the end of the financial year** | **5,541** | **4,687** |

| | 2012 $ | 2011 $ |
|---|---|---|

## Note 15. Statement of Cashflows

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

| | 2012 $ | 2011 $ |
|---|---|---|
| Profit from ordinary activities after income tax | 60,856 | 61,307 |
| Non cash items: | | |
| - depreciation | 11,270 | 11,539 |
| - amortisation | 13,885 | 5,471 |
| Changes in assets and liabilities: | | |
| - (increase)/decrease in receivables | (8,887) | 8,935 |
| - decrease in other assets | 2,716 | 17,386 |
| - (increase)/decrease in payables | 6,925 | (20,824) |
| -increase/(decrease) in provisions | - | (58,333) |
| -increase/(decrease) in current tax liabilities | 1,096 | (19,973) |
| **Net cashflows provided by operating activities** | **87,861** | **5,508** |

## Note 16. Leases

**Operating lease commitments**

| | 2012 $ | 2011 $ |
|---|---|---|
| Non-cancellable operating leases contracted for but not capitalised in the financial statements | | |
| Payable - minimum lease payments | | |
| - not later than 12 months | 37,116 | 36,000 |
| - between 12 months and 5 years | 102,069 | 135,000 |
| | **139,185** | **171,000** |

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.

## Note 17. Auditors' Remuneration

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

| | 2012 $ | 2011 $ |
|---|---|---|
| - audit and review services | 4,500 | 4,500 |
| - share registry services | 2,158 | 2,766 |
| - non audit services | 2,742 | 2,050 |
| | **9,400** | **9,316** |

## Note 18. Director and Related Party Disclosures

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

Alan Keith Gostelow
Tristan Andrew Creed (Appointed 17th of November 2011)
Maxwell Alexander Warlow
David Leonard Schultz
Domenic Anthony Brusamarello
Susan Joy Ruffin (Appointed 17th of November 2011)
David James Grimmond (Appointed 17th of November 2011)
Stephen Andrew McHugh (Resigned 17th of November 2011)
Francis Barry McGarvey (Resigned 17th of November 2011)
Terrence William Hall JP (Resigned 24th of August 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 2012 was: $36,372 (2011: $32,400).

Tristan Andrew Creed, proprietor of Feathertop Business Services, provided accounting services to the company. The fees amounted to $12,500 (2011: $-).

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.

| **Directors' Shareholdings** | **2012** | **2011** |
|---|---|---|
| Alan Keith Gostelow | 501 | 501 |
| Tristan Andrew Creed (Appointed 17th of November 2011) | - | - |
| Maxwell Alexander Warlow | - | - |
| David Leonard Schultz | 500 | 500 |
| Domenic Anthony Brusamarello | 5,000 | 5,000 |
| Susan Joy Ruffin (Appointed 17th of November 2011) | - | - |
| David James Grimmond (Appointed 17th of November 2011) | - | - |
| Stephen Andrew McHugh (Resigned 17th of November 2011) | - | - |
| Francis Barry McGarvey (Resigned 17th of November 2011) | 2,001 | 2,001 |
| Terrence William Hall JP (Resigned 24th of August 2011) | 32,001 | 32,001 |

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

| | 2012<br>$ | 2011<br>$ |
|---|---|---|

## Note 19. Dividends Paid or Provided

| | | |
|---|---|---|
| **a. Dividends paid during the year** | | |
| Current year special dividend | | |
| **100% (2011: 100%) franked dividend - 0 cents (2011: 2 cents) per share** | **-** | **15,000** |
| Prior year proposed final | | |
| **100% (2011: 0%) franked dividend - 8 cents (2011: 4 cents) per share** | **60,002** | **30,000** |
| **b. Franking account balance** | | |
| Franking credits available for subsequent reporting periods are: | | |
| - franking account balance as at the end of the financial year | 19,843 | 24,776 |
| - franking credits/(debits) that will arise from income tax payable/(refundable) as at the end of the financial year | (6,050) | (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:** | **13,793** | **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** | **13,793** | **16,010** |

## Note 20. 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 21. Earnings Per Share

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| (a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share | 60,856 | 61,307 |
| | **Number** | **Number** |
| (b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 750,010 | 750,010 |

## Note 22. 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 23. Contingent Liabilities

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

## Note 24. 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 25. 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 26. 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.

## Note 26. Financial Instruments (continued)

### Interest Rate Risk

| Financial instrument | Floating interest rate | | Fixed interest rate maturing in: 1 year or less | | Over 1 to 5 years | | Over 5 years | | Non interest bearing | | Weighted average effective interest rate | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 $ | 2011 $ | 2012 $ | 2011 $ | 2012 $ | 2011 $ | 2012 $ | 2011 $ | 2012 $ | 2011 $ | 2012 % | 2011 % |
| **Financial Assets** | | | | | | | | | | | | |
| Cash and cash equivalents | 8,912 | 3,196 | 516,700 | 495,500 | - | - | - | - | - | - | 5.67 | 5.81 |
| Receivables | - | - | - | - | - | - | - | - | 36,104 | 27,217 | N/A | N/A |
| **Financial Liabilities** | | | | | | | | | | | | |
| Payables | - | - | - | - | - | - | - | - | 1,245 | 5,530 | 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 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.

**Alan Keith Gostelow,**
**Chairman**

Signed on the 31st of August 2012.

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 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.



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

**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 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 Inverloch & District Financial Enterprises Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

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

Dated: 31 August 2012

# NSX report

Inverloch & District Financial Enterprises Limited is a public company incorporated in Australia and listed on the National Stock Exchange of Australia (NSX).

In addition to information provided in accordance with statutory requirements (Corporations Act S314) of a Financial Report, Directors' Report and Auditors Report all NSX listed entities are obliged to report on a number of other items in accordance with NSX Listing Rule 6.9. Accordingly, the Directors of Inverloch & District Financial Enterprises report on those items not included elsewhere in the Annual Report in the following paragraphs.

**Shareholding**

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

| Size of holding | Number of holders | Number of shares |
|---|---|---|
| 1 to 1,000 | 107 | 69,853 |
| 1,001 to 5,000 | 76 | 234,053 |
| 5,001 to 10,000 | 22 | 211,100 |
| 10,001 to 100,000 | 6 | 235,004 |
| 100,001 and over | Nil | Nil |
| **Total** | **211** | **750,010** |

**Equity Securities**

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

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

There are 3 shareholders holding less than a marketable parcel of Shares ($500 in value).

There are no restricted securities on issue.

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

**Ten largest shareholders**

The following table shows the ten largest shareholders:

| Rank | Shareholder | Number of ordinary shares | Percentage of ordinary shares |
|---|---|---|---|
| 1 | Croweaters Super Fund a/c | 50,001 | 6.67 |
| 2 | South Coast Super Fund a/c | 50,000 | 6.67 |
| 3 | Mr Geoff & Mrs Rosemary Brooks | 50,000 | 6.67 |
| 4 | Hall Family Super Fund a/c | 30,001 | 4.00 |
| 5 | Walsh Family Super Fund a/c | 30,001 | 4.00 |

### Ten largest shareholders (continued)

| Rank | Shareholder | Number of ordinary shares | Percentage of ordinary shares |
|---|---|---|---|
| 6 | Jeeralang Design P/L Super Fund a/c | 25,001 | 3.33 |
| 7 | Mrs Denise Beard | 10,000 | 1.33 |
| 8 | A&P Brown Family Super Fund | 10,000 | 1.33 |
| 9 | Mr Grant Caldwell | 10,000 | 1.33 |
| 10 | Mr Vincent & Mrs Miriam Dowling | 10,000 | 1.33 |
| | **Total** | **275,004** | **36.66%** |

### Registered office and principal administrative office

The registered office and the principal administrative office is located at:
16c Williams Street,
Inverloch VIC 3996
Phone (03) 5674 2800

### Security register

The security register (share register) is kept at:
AFS & Associates
61-65 Bull Street,
Bendigo VIC 3550
Phone: (03) 5443 0344

### Company Secretary

Alan Gostelow has been the Company Secretary of Inverloch & District Financial Enterprises Limited for 6 years. Alan's education includes a Company Directors Diploma, he is a Fellow of the Australian Institute of Company Directors and has served as the Company Secretary for two other companies in addition to this appointment.

### Corporate governance

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, shareholders, customers and other stakeholders by exercising due care, diligence and skill.

In addition, the company has implemented various corporate governance practices, which include:

(a) The establishment of Finance Audit & Governance Committee. Members of the committee are: Max Warlow, Alan Gostelow, Tristan Creed, Susan Ruffin,

(b) Director approval of operating budgets and monitoring of progress against these budgets;

(c) Ongoing Director Training; and

(d) Monthly Director meetings to discuss performance and strategic plans.

**Annexure 3A**

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.

**5 Year summary of performance**

| | 2008<br>$ | 2009<br>$ | 2010<br>$ | 2011<br>$ | 2012<br>$ |
|---|---|---|---|---|---|
| Gross revenue | 433,138 | 492,603 | 614,968 | 667,452 | 665,273 |
| Net profit before tax | 48,950 | 47,155 | 136,036 | 89,929 | 85,450 |
| Total assets | 610,048 | 657,150 | 813,820 | 742,168 | 751,043 |
| Total liabilities | 4,745 | 19,995 | 95,893 | 7,934 | 15,995 |
| Total equity | 605,303 | 637,155 | 717,927 | 734,234 | 735,088 |

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 Bank

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