Lockmore Financial Services Ltd

ABN 41 106 113 599

annual report 2011

Elmore/Lockington & Districts **Community Bank®** Branch

Contents

Chairman's report

For year ending 30 June 2011

I am pleased to present the eighth annual report for Lockmore Financial Services Ltd.

Once again, the past twelve months have been a busy period for Lockmore Financial Services. The financial year has seen banking business grow to $97.6 million. This growth has seen another strong surplus and a net profit of $65,025 as revealed in the financial report. Shareholders received a bonus share issue of 25% after a Company valuation and a dividend of 8 cents per share in December 2010. This represents a very good return to our valued investors.

The past 12 months have seen our sponsorship program continue within our community. This year we were pleased to offer support to a wide range of initiatives throughout our area. Some of the endeavours supported include: Kamarooka Picnic, sporting scholarships, Energy Breakthrough, Campaspe Tennis Association score books, Mt Pleasant Netball Club scoreboards, Lynne O'Brien tribute night, Milloo trivia night, Campaspe Golf club mower. We look forward to continuing our sponsorship program in the year ahead.

The month of May saw our inaugural grants program rolled out, in conjunction with the Community Enterprise Foundation™. This more structured program provides the opportunity to minimise tax through the foundation and basic parameters in which to structure a funding application. It also enables community projects to be planned around our annual grants opportunity and perhaps link with other grants available from other sources. Our first grants presentation night saw $48,000 provided to applicants across the community including; Elmore Primary School, East Loddon Community Health, Lockington CFA and Rochester Anglican Church.

March saw staff member Claire Hanna take maternity leave (since welcoming baby Taylor James) allowing the employment of Amy McGenniskin. Amy has been with Bendigo and Adelaide Bank Ltd for seven years, working in a number of branches as a Customer Relationship Officer. We are pleased to welcome Amy to the team. My thanks to our other hard working staff: Rachel Baker, Helen Barker, Claire Hanna, Helen McCaskie, Tanya Niven, Michelle Spence, Wendy Wright and Kristy Nihill (our Marketing Officer) ably led by Manager Tracie Kyne. I thank you all for your energy and commitment to our business.

The Fuel Project has reached a conclusion. Earlier this year, Atlas Fuel was purchased by Scott's Petroleum. After considerable discussion with Scott's, it has been agreed that Lockmore Financial Services will receive a margin of one cent per litre on all fuel purchased by our customers. Scott's also feel they can service all requirements through existing infrastructure, negating the need for a capital raise. Whilst this outcome differs significantly from our original intent, we believe it to be a satisfactory result for our efforts.

The Rochester campaign has resulted in pledges of $620,000 being received. A successful feasibility study has been conducted and a Prospectus produced. Currently, the Board and Steering Committee are in the process of trying to raise the capital required to open our third branch. Given the difficulties faced by Rochester residents earlier this year, the level of support is fantastic. The local Steering Committee has done an amazing job and they should be very proud of their efforts. We look forward to opening the Rochester **Community Bank®** Branch later this year.

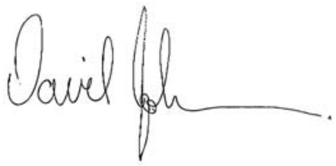
The Annual General Meeting last year saw the retirement of David Trewick and the resignation of Jen Dobell from the Board. I thank them very much for their efforts during their tenure. It also saw the appointment of Matt Dennis and Kate Taylor, with Sandra Peacock being appointed during the year. I welcome them to the team. All Board members have made a significant contribution to the business this year. Meetings have been well attended

Chairman's report continued

and we have had representation at conferences, Director Education and community events. Shareholders should be very proud to be so well served by their Directors. I pay tribute to Helen O'Sullivan (Company Secretary) and Cori Holmberg (Treasurer) for their efforts. Their passion and diligence enable the company to operate efficiently and smoothly and make the job of Chairman very easy and I am very grateful.

I would like to thank the shareholders and customers for their ongoing support of this worthwhile community Company. I feel confident that Elmore/Lockington & Districts and Rochester **Community Bank®** branches will continue to make a significant difference within our communities.

Bank with us and everybody benefits!



David Johnson
Chairman

Manager's report

For year ending 30 June 2011

The last 12 months have seen many more locals from Elmore, Lockington and Rochester change their banking to their **Community Bank®** branch this year. Not only are they receiving excellent service from our dedicated team of Customer Service Officers, Customer Relationship Officers and Lenders, but they have also seen a difference in their communities. We have given away $145,382 this year in grants and sponsorships to community groups and also paid $72,000 in December 2010 in dividends and a further $81,000 in July 2011 to our ever supportive shareholders. This brings the total funds paid in community distributions and dividends to over $530,000 since the inception of Elmore/Lockington & Districts **Community Bank®** Branch in 2003.

With the addition of our third site later this year, Rochester **Community Bank®** Branch will further add to the continued success of Lockmore Financial Services Ltd and will increase the ability to distribute even more profits to the community. We have continued to see growth within the company as new customers join our **Community Bank®** branch family. I get a real feeling that customers experience "belonging" rather than banking. This is their bank, with decisions made locally, profits distributed locally and benefits experienced locally.

With the Rochester **Community Bank®** Branch about to open, we will introduce five new members of staff to our existing staff of Rachel Baker, Wendy Wright, Helen McCaskie, Tanya Niven, Michelle Spence, Helen Barker, Amy McGenniskin and our Marketing Officer, Kristy Nihill. (Claire Hanna currently on maternity leave, having had a baby boy earlier this year). This gives us the opportunity to have experienced staff located in all branches going forward and a better experience for all customers.

Lockmore Financial Services Ltd, at 30 June 2011, has a combined business total of $97.6 million. The business has grown $19.3 million from last year, an increase of 24.5%. This is an incredible result and a testament to their hard work. We are all anticipating the huge milestone of $100 million in banking business in the not too distant future.

I would like to thank the amazing team that work with me day in and day out to achieve the results required to continue to provide profits for our communities. But without the incredible passion and tireless efforts of our Board of Directors, none of this would be possible. Thank you to all.

Tracie Kyne
Manager

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:

David John Johnson
Chairman
Age: 43
Occupation: Farmer
David has had a long-term commitment to the local community with involvement in a number of organisations including: Elmore Field Days, Hunter Landcare, CFA, St Peters Anglican Church and Hunter Public Hall.
Committees: Marketing & Human Resources
Interest in share: 6,251

Helen Dianne O'Sullivan
Secretary
Age: 58
Occupation: Teacher
Bachelor of Education and has worked as a teacher in many of the local primary schools over the past 30 years. She has a wide range of interests and has been actively involved in many local organisations where she has often held executive positions.
Committees: Marketing
Interest in share: 6,251

Corinne Gaye Holmberg
Treasurer
Age: 62
Occupation: Administrator
Business partner, held the position of Secretary of Elmore field days for many years and has been actively involved in many community organisations often holding executive positions. Has lived in Elmore since 1962.
Committees: Audit and Finance
Interest in share: 3,751

Louise Frances Ross
Director
Age: 44
Occupation: Research Assistant
Many years working in community development and particularly neighbourhood house sector. Involvement in many community groups including: Heritage Complex, Lockington Business Centre, Lockington Development Committee and Parish Council.
Committees: Human Resources and Marketing
Interest in share: 1,876

Maxwell John Williams
Director
Age: 62
Occupation: Farmer
Involved with Landcare, Elmore Field Days and the Hunter DW Fire Brigade. Has lived at Drummartin all his life and is dedicated to the service of his local community.
Committees: Marketing, Building/Maintenance
Interest in shares: 8,751

Graeme Trevor Wood
Director
Age: 55
Occupation: Farmer
Formerly involved in many community groups including president of school council, office bearer APEX Club and presently treasurer of Lockington Community Care Committee Inc.
Committees: Marketing, Building/Maintenance, Share Registry Officer
Interest in shares: 626

Directors (continued)

Christine Joy Weller
Director
Age: 47
Occupation: Business Management
Currently Treasurer/Committee of Management Lockington District Business Centre, President/Director of Rotary Club of Echuca Moama Inc, President/Director Echuca Steam Horse & Vintage Rally Inc. Holds qualifications in Business Management, rural leadership and internal quality assurance auditor. Member of a number of boards in the past.
Committees: Finance, Audit and Due Diligence
Interest in shares: 1,250

Martin John Leddra
Director
Age: 64
Occupation: Solicitor
Commenced his own legal practice in Mooroolbark, in 1975 and remained there until he sold his practice in 2007. Board member of another community bank in Melbourne until 2007. Martin was also involved in many local sporting and community organizations, supporting and acting for their members.
Committees: Legal Advisor, Due Diligence
Interest in shares: Nil

Christopher Thomas Giffin
Director (Appointed 21 October 2010)
Age: 33
Occupation: Farmer
Involved in local community groups which include Landcare, CFA and the tennis club.
Committees: Fuel project co - ordination
Interest in shares: 1,250

Kathyrn Carmel Taylor
Director (Appointed 21 October 2010)
Age: 43
Occupation: Teacher
Secondary college teacher who completed Bachelor of Education and has a Post Grad Diploma in Adult literacy. Runs local business 'Taylor Made Cows.' She has been president of Rochester Swimming Club and Rochester Netball Association.
Committees: Marketing, Rochester Steering Committee
Interest in shares: Nil

Mathew John Dennis
Director (Appointed 21 October 2010)
Age: 33
Occupation: Manager
Qualified Electrician, experience in IT management, project management and building certification.
Committees: Audit/Finance, Buildings/Maintenance, Rochester Steering Committee
Interest in shares: Nil

Sandra Margaret Peacock
Director (Appointed 6 June 2011)
Age: 49
Occupation: Business Owner
Small business owner and office manager. Past school council president.
Committees: Rochester Steering Committee
Interest in shares: Nil

David Thomas Trewick
Director (Retired 21 October 2010)
Age: 40
Occupation: Farmer

Jennifer Anne Dobell
Director (Resigned 1 December 2010)
Age: 36
Occupation: Finance Manager

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

No director has material interests in contracts or proposed contracts with the company.

Company Secretary

The company secretary is Helen O'Sullivan. Helen O'Sulllivan was appointed to the position of secretary on the 25 June 2003 following on from the same role during the Steering Committee stage. Helen holds a Bachelor of Education with thirty years experience. She has been actively involved in many local organisations where she has often held executive positions due to her natural leadership abilities.

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 franchised branches of Bendigo and Adelaide Bank Limited.

The Board has entered into an agreement with Scott Petroleum whereby Lockmore receives a commission on fuel purchased by customers who are referred to the business by Lockmore.

A lease was signed to provide a property in Rochester for the Community Bank® branch of Bendigo Bank in Rochester on the 4 December 2010. On the 4th of August 2011 the company launched a Prospectus to raise funds for the capital expenditure and working capital requirements to fund the opening of the branch.

There have been no other 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 2011 $	Year ended 30 June 2010 $
	65,025	37,911

Remuneration Report

<u>Directors' Remuneration</u>

At the Company's Annual General Meeting held on the 22nd of October 2009 a resolution was passed giving approval for Director's Fees to be paid to Directors. It was agreed that an amount of $40,000p.a. be made available for the Director's Fees and that the fees be distributed amongst the Directors at the discretion of the Board. The Board decided that payment of these fees start 1 July 2009 and be paid on a pro rata basis.

	Year ended 30 June 2011 $	Year ended 30 June 2010 $
David John Johnson	5,000	5,000
Helen Dianne O'Sullivan	5,000	5,000
Corinne Gaye Holmberg	5,000	5,000
Louise Frances Ross	1,000	1,000
Maxwell John Williams	1,000	1,000
Graeme Trevor Wood	1,000	1,000

Remuneration Report (continued)

Directors' Remuneration (continued)

	Year ended 30 June 2011 $	Year ended 30 June 2010 $
Christine Joy Weller	1,000	1,000
Martin John Leddra	1,000	1,000
Christopher Thomas Giffin (Appointed 21 October 2010)	690	-
Kathyrn Carmel Taylor (Appointed 21 October 2010)	690	-
Mathew John Dennis (Appointed 21 October 2010)	690	-
Sandra Margaret Peacock (Appointed 6 June 2011)	66	-
David Thomas Trewick (Retired 21 October 2010)	310	1,000
Jennifer Anne Dobell (Resigned 1 December 2010)	420	1,000

Fees and payments to non executive directors reflect the demands which are made on and the responsibilities of the directors. Non executive directors' fees are reviewed annually by the Board. The Chairman's, Secretary's and Treasurer's fees are determined independently to the fees of non executive directors.

	Year Ended 30 June 2011	
Dividends	**Cents**	**$**
Unfranked dividends paid in the year.	8.00	72,000
Unfranked dividends declared and provided for in the year.	9.00	81,000

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

On the 4th of August 2011 the company launched a Prospectus to raise funds for the capital expenditure and working capital requirements in respect of a Community Bank® branch of Bendigo Bank to be established in Rochester. The Company is offering for subscription $750,000 ordinary shares (Shares) in the Company at an issue price of $1.00 per Share. Over $400,000 has been received to date and the board expects the branch to be open in October 2011.

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

Likely Developments

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

Environmental Regulation

The company is not subject to any significant environmental regulation.

Directors' Benefits

No director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a director, a firm which a director is a member or an entity in which a director has a substantial financial interest except as disclosed in note 20 to the financial statements. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the company's accounts, or the fixed salary of a full-time employee of the company, controlled entity or related body corporate.

Indemnification and Insurance of Directors and Officers

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

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

Directors Meetings

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

	Board Meetings Attended		**Marketing Sub Committee**	
	Eligible	Attended	Eligible	Attended
David John Johnson	11	11	-	2
Helen Dianne O'Sullivan	11	10	10	9
Corinne Gaye Holmberg	11	10	-	2
Louise Frances Ross	11	11	10	10
Maxwell John Williams	11	11	10	10
Graeme Trevor Wood	11	11	10	10
Christine Joy Weller	11	9	-	-
Martin John Leddra	11	10	-	-
Christopher Thomas Giffin (Appointed 21 October 2010)	7	7	-	-
Kathyrn Carmel Taylor (Appointed 21 October 2010)	7	6	6	5
Mathew John Dennis (Appointed 21 October 2010)	7	6	-	-
Sandra Margaret Peacock (Appointed 6 June 2011)	1	1	-	-
David Thomas Trewick (Retired 21 October 2010)	4	4	3	2
Jennifer Anne Dobell (Resigned 1 December 2010)	5	4	-	-

The Board has five other sub-committees, Human Resource, Finance/Audit, Buildings & Maintenance, Due Diligence and the Rochester Steering Committee. Each sub-committee has formally elected Directors who meet on a regular basis and present reports/recommendations to the monthly Board meetings.

Directors' report continued

Non Audit Services

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

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

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

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

Auditors' Independence Declaration

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

Signed in accordance with a resolution of the board of directors at Elmore, Victoria on 12 August 2011.

David John Johnson, 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 Lockmore Financial Services Limited

I declare, that to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 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.

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

12th August 2011

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 2011

	Note	2011 $	2010 $
Revenues from ordinary activities	4	903,609	669,091
Employee benefits expense		(335,618)	(257,128)
Charitable donations, sponsorship, advertising and promotion		(176,656)	(122,641)
Occupancy and associated costs		(51,822)	(32,929)
Systems costs		(38,793)	(37,462)
Depreciation and amortisation expense	5	(32,095)	(36,587)
Finance costs	5	(2,557)	(1,587)
General administration expenses		(167,273)	(132,158)
Profit before income tax expense		**98,795**	**48,599**
Income tax expense	6	(33,770)	(10,688)
Profit after income tax expense		**65,025**	**37,911**
Total comprehensive income for the year		**65,025**	**37,911**
Earnings per share (cents per share)		**c**	**c**
- basic for profit for the year	22	7.35	5.27

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	397,822	385,939
Trade and other receivables	8	73,125	60,529
Current tax asset	11	-	20
Total Current Assets		**470,947**	**446,488**
Non-Current Assets			
Property, plant and equipment	9	106,410	116,960
Intangible assets	10	33,285	47,058
Deferred tax assets	11	9,258	7,838
Total Non-Current Assets		**148,953**	**171,856**
Total Assets		**619,900**	**618,344**
LIABILITIES			
Current Liabilities			
Trade and other payables	12	39,674	27,053
Current tax liabilities	11	22,782	-
Borrowings	13	11,731	13,410
Provisions	14	108,611	22,036
Total Current Liabilities		**182,798**	**62,499**
Non-Current Liabilities			
Borrowings	13	15,098	24,273
Provisions	14	6,127	10,098
Total Non-Current Liabilities		**21,225**	**34,371**
Total Liabilities		**204,023**	**96,870**
Net Assets		**415,877**	**521,474**
Equity			
Issued capital	15	672,835	690,457
Accumulated losses	16	(256,958)	(168,983)
Total Equity		**415,877**	**521,474**

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	**690,457**	**(149,294)**	**541,163**
Total comprehensive income for the year	**-**	**37,911**	**37,911**
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(57,600)	(57,600)
Balance at 30 June 2010	**690,457**	**(168,983)**	**521,474**
Balance at 1 July 2010	**690,457**	**(168,983)**	**521,474**
Total comprehensive income for the year	**-**	**65,025**	**65,025**
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	(17,622)	-	(17,622)
Dividends provided for or paid	-	(153,000)	(153,000)
Balance at 30 June 2011	**672,835**	**(256,958)**	**415,877**

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		875,433	647,022
Payments to suppliers and employees		(772,478)	(560,179)
Interest received		22,121	15,758
Interest paid		(2,557)	(1,587)
Income taxes paid		(12,388)	(14,037)
Net cash provided by operating activities	**17**	**110,131**	**86,977**
Cash Flows From Investing Activities			
Payments for property, plant and equipment		(7,772)	(30,692)
Net cash used in investing activities		**(7,772)**	**(30,692)**
Cash Flows From Financing Activities			
Payment for share issue costs		(7,622)	-
Proceeds from borrowings		-	43,919
Repayment of borrowings		(10,854)	(20,202)
Dividends paid		(72,000)	(57,600)
Net cash used in financing activities		**(90,476)**	**(33,883)**
Net increase in cash held		**11,883**	**22,402**
Cash and cash equivalents at the beginning of the financial year		385,939	363,537
Cash and cash equivalents at the end of the financial year	**7(a)**	**397,822**	**385,939**

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.

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®** branches at Elmore and Lockington, 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.

Note 1. Summary of Significant Accounting Policies (continued)

g) Property, Plant and Equipment

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

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

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

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

h) Intangibles

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

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

i) Payment Terms

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

j) Borrowings

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

k) Financial Instruments

<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.

Note 1. Summary of Significant Accounting Policies (continued)

k) Financial Instruments (continued)

Classification and subsequent measurement

(i) Loans and receivables

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

(ii) Held-to-maturity investments

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

(iii) Financial liabilities

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

Impairment

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

l) Leases

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

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

m) Provisions

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

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

Note 1. Summary of Significant Accounting Policies (continued)

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.

Note 2. Financial Risk Management (continued)

(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%.

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.

Note 3. Critical Accounting Estimates and Judgements (continued)

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.

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.

Note 3. Critical Accounting Estimates and Judgements (continued)

Impairment of assets (continued)

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

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

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

Note 4. Revenue from Ordinary Activities

	2011 $	2010 $
Operating activities:		
- services commissions	872,557	644,389
- other revenue	8,931	8,944
Total revenue from operating activities	**881,488**	**653,333**
Non-operating activities:		
- interest received	22,121	15,758
Total revenue from non-operating activities	**22,121**	**15,758**
Total revenues from ordinary activities	**903,609**	**669,091**

	Note	2011 $	2010 $

Note 5. Expenses

Depreciation of non-current assets:			
- plant and equipment		13,542	13,638
- leasehold improvements		4,781	9,177
Amortisation of non-current assets:			
- franchise agreement		2,295	2,295
- franchise renewal fee		11,477	11,477
		32,095	**36,587**
Finance costs:			
- interest paid		2,557	1,587
Bad debts		**107**	**5,081**

Note 6. Income Tax Expense

The components of tax expense comprise:			
- Current tax		35,190	14,017
- Future income tax benefit attributed to losses		-	-
- Movement in deferred tax		(1,420)	(5,532)
- Recoup of prior year tax loss		-	2,203
- Under/(Over) provision of tax in the prior period		-	-
		33,770	**10,688**
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:			
Operating profit		98,795	48,599
Prima facie tax on profit from ordinary activities at 30%		29,639	14,580
Add tax effect of:			
- non-deductible expenses		4,132	4,132
- timing difference expenses		1,419	5,532
- other deductible expenses		-	(8,024)
		35,190	**16,220**

	Note	2011 $	2010 $
Note 6. Income Tax Expense (continued)			
Movement in deferred tax	11	(1,420)	(5,532)
Under/(Over) provision of income tax in the prior year		-	-
		33,770	**10,688**

Note 7. Cash and Cash Equivalents

Cash at bank and on hand	97,822	105,421
Term deposits	300,000	280,518
	397,822	**385,939**

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	97,822	105,421
Term deposits	300,000	280,518
	397,822	**385,939**

Note 8. Trade and Other Receivables

Trade receivables	64,369	54,524
Other receivables and accruals	8,756	6,005
	73,125	**60,529**

Note 9. Property, Plant and Equipment

Plant and equipment		
At cost	66,466	58,693
Less accumulated depreciation	(38,915)	(33,789)
	27,551	**24,904**
Leasehold improvements		
At cost	94,254	94,254
Less accumulated depreciation	(40,643)	(35,862)
	53,611	**58,392**

	2011 $	2010 $
Note 9. Property, Plant and Equipment (continued)		
Motor vehicle		
At cost	39,477	39,477
Less accumulated depreciation	(14,229)	(5,813)
	25,248	**33,664**
Total written down amount	**106,410**	**116,960**
Movements in carrying amounts:		
Plant and equipment		
Carrying amount at beginning	24,904	31,357
Additions	7,773	2,249
Disposals	-	(415)
Less: depreciation expense	(5,126)	(8,287)
Carrying amount at end	**27,551**	**24,904**
Leasehold improvements		
Carrying amount at beginning	58,392	62,995
Additions	-	2,200
Disposals	-	-
Less: depreciation expense	(4,781)	(6,803)
Carrying amount at end	**53,611**	**58,392**
Motor vehicle		
Carrying amount at beginning	33,664	19,471
Additions	-	25,841
Disposals	-	(4,325)
Less: depreciation expense	(8,416)	(7,323)
Carrying amount at end	**25,248**	**33,664**
Total written down amount	**106,410**	**116,960**

	2011 $	2010 $

Note 10. Intangible Assets

	2011 $	2010 $
Franchise fee		
At cost	71,477	71,477
Less: accumulated amortisation	(65,928)	(63,632)
	5,549	**7,845**
Renewal processing fee		
At cost	57,385	57,385
Less: accumulated amortisation	(29,649)	(18,172)
	27,736	**39,213**
Total written down amount	**33,285**	**47,058**

Note 11. Tax

	2011 $	2010 $
Current:		
Income tax payable/(refundable)	**22,782**	**(20)**
Non-Current:		
Deferred tax assets		
- accruals	338	-
- employee provisions	10,121	9,640
	10,459	**9,640**
Deferred tax liability		
- accruals	1,201	1,802
	1,201	**1,802**
Net deferred tax asset	**9,258**	**7,838**
Movement in deferred tax charged to statement of comprehensive income	**(1,420)**	**(3,329)**

Note 12. Trade and Other Payables

	2011 $	2010 $
Trade creditors	26,349	24,853
Other creditors and accruals	13,325	2,200
	39,674	**27,053**

	Note	2011 $	2010 $

Note 13. Borrowings

	Note	2011 $	2010 $
Current:			
Lease liability	18	11,731	13,410
Non-Current:			
Lease liability	18	15,098	24,273

Chattel mortgage on motor vehicle is repayable monthly with the final instalment due on 10 December 2012. Interest is recognised at an average rate of 7.8% (2009: 7.8%). The loan is secured by a fixed and floating charge over the company's assets.

Note 14. Provisions

	Note	2011 $	2010 $
Current:			
Provision for annual leave		20,794	22,036
Provision for dividend		81,000	-
Provision for long service leave		6,817	-
		108,611	**22,036**
Non-Current:			
Provision for long service leave		**6,127**	**10,098**
Number of employees at year end FTE		5	4.4

Note 15. Contributed Equity

	Note	2011 $	2010 $
900,004 Ordinary shares fully paid (2010: 720,010)		720,010	720,010
Less: equity raising expenses (Elmore/Lockington)		(29,553)	(29,553)
Less: equity raising expenses (Rochester)		(17,622)	-
		672,835	**690,457**

Following an independent valuation of the company, bonus shares were issued to all shareholders on 30 July 2010 on the basis of one new fully paid ordinary share for every four fully paid ordinary shares currently held.

Note 15. Contributed Equity (continued)

Rights attached to shares

(a) Voting rights

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

On a show of hands or a poll, each shareholder 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 shareholder and has also been appointed as proxy for another shareholder) that person may only exercise one vote on a show of hands. On a poll, that person may exercise one vote as a shareholder and one vote for each other member that person represents as duly appointed attorney, corporate representative or proxy.

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

(c) Transfer

Generally, ordinary shares are freely transferable. However, the directors have a discretion to refuse to register a transfer of shares.

Subject to the foregoing, shareholders may transfer shares by a proper transfer effected in accordance with the company's constitution and the Corporations Act.

Prohibited shareholding interest

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

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

- They control or own 10% or more of the shares in the company (the "10% limit").
- In the opinion of the board they do not have a close connection to the community or communities in which the company predominantly carries on business (the "close connection test").
- Where the person is a shareholder, after the transfer of shares in the company to that person the number of shareholders in the company is (or would be) lower than the base number (the "base number test"). The base number is 411. As at the date of this report, the company had 482 shareholders.

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

Note 15. Contributed Equity (continued)

Prohibited shareholding interest (continued)

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

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

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

	2011 $	**2010 $**

Note 16. Accumulated Losses

Balance at the beginning of the financial year	(168,983)	(149,294)
Net profit from ordinary activities after income tax	65,025	37,911
Dividends paid or provided for	(153,000)	(57,600)
Balance at the end of the financial year	**(256,958)**	**(168,983)**

Note 17. Statement of Cashflows

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

Profit from ordinary activities after income tax	65,025	37,911
Non cash items:		
- depreciation	18,323	22,815
- amortisation	13,772	13,772
- loss on disposal of fixed asset	-	4,740

	2011 $	2010 $
Note 17. Statement of Cashflows (continued)		
Changes in assets and liabilities:		
- increase in receivables	(12,596)	(6,806)
- increase in other assets	(1,400)	(3,349)
- increase in payables	2,621	8,294
- increase in provisions	1,604	9,600
- increase in current tax liabilities	22,782	-
Net cashflows provided by operating activities	**110,131**	**86,977**

Note 18. Leases

Finance lease commitments

	2011 $	2010 $
Payable - minimum lease payments		
- not later than 12 months	13,410	13,410
- between 12 months and 5 years	15,587	28,998
- greater than 5 years	-	-
Minimum lease payments	**28,997**	**42,408**
Less future finance charges	(2,168)	(4,725)
Present value of minimum lease payments	**26,829**	**37,683**

The finance lease of motor vehicle, which commenced in December 2009, is a 3-year lease. Interest is recognised at an average rate of 7.8% (2010: 7.8%).

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	36,242	20,158
- between 12 months and 5 years	51,832	40,755
- greater than 5 years	-	-
	88,074	**60,913**

The Elmore Branch lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. It is in the second option period with another 5 year option left on the lease. The rent is reviewed annually with increases in line with CPI and on market value at each renewal date (3 December 2013).

Note 18. Leases (continued)

The Lockington Branch lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. It is in the second option period with another 5 year option left on the lease. The rent is reviewed annually with increases in line with CPI and on market value at each renewal date (3 March 2014).

The Rochester Branch lease is a non-cancellable lease with a three-year term, with rent payable monthly in advance. The lease has two further 5 year term options left on the lease. The rent is reviewed annually with increases in line with CPI and on market value at each renewal date (3 December 2013).

Note 19. Auditors' Remuneration

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

	2011 $	2010 $
- audit and review services	3,400	3,400
- share registry services	3,560	3,112
- non audit services	2,859	5,843
	9,819	**12,355**

Note 20. Director and Related Party Disclosures

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

David John Johnson
Helen Dianne O'Sullivan
Corinne Gaye Holmberg
Louise Frances Ross
Maxwell John Williams
Graeme Trevor Wood
Christine Joy Weller
Martin John Leddra
Christopher Thomas Giffin (Appointed 21 October 2010)
Kathyrn Carmel Taylor (Appointed 21 October 2010)
Mathew John Dennis (Appointed 21 October 2010)
Sandra Margaret Peacock (Appointed 6 June 2011)
David Thomas Trewick (Retired 21 October 2010)
Jennifer Anne Dobell (Resigned 1 December 2010)

Director, Corinne Holmberg is a partner with her husband in H & R Holmberg's Business at Elmore which provides some of the fuel for the Branch Manager's motor vehicle. Total payments for 2011 were $2,927 (2010: $2,198.73).

No other director or related entity has entered into a material contract with the company.

Note 20. Director and Related Party Disclosures (continued)

Directors Shareholdings	**2011**	**2010**
David John Johnson	6,251	5,001
Helen Dianne O'Sullivan	6,251	5,001
Corinne Gaye Holmberg	3,751	3,001
Louise Frances Ross	1,876	1,501
Maxwell John Williams	8,751	7,001
Graeme Trevor Wood	626	501
Christine Joy Weller	1,250	1,000
Martin John Leddra	-	-
Christopher Thomas Giffin (Appointed 21 October 2010)	1,250	-
Kathyrn Carmel Taylor (Appointed 21 October 2010)	-	-
Mathew John Dennis (Appointed 21 October 2010)	-	-
Sandra Margaret Peacock (Appointed 6 June 2011)	-	-
David Thomas Trewick (Retired 21 October 2010)	3,751	3,001
Jennifer Anne Dobell (Resigned 1 December 2010)	-	5,000

Note 21. Dividends Paid or Provided

	2011 $	**2010 $**
a. Dividends paid during the year		
Unfranked - 8 cents per share (2010: 8 cents per share)	**72,000**	**57,600**
b. Dividends proposed and recognised as a liability		
Current year final dividend		
Unfranked dividend - 9 cents per share (2010: Nil cents per share)	**81,000**	**-**

	2011 $	2010 $

Note 21. Dividends Paid or Provided (continued)

c. Franking account balance

Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	26,425	14,037
- franking credits that will arise from payment of income tax payable as at the end of the financial year	22,781	-
- 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:	**49,206**	**14,037**
- 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	**49,206**	**14,037**

Note 22. Key Management Personnel Disclosures

There are no Executives within the company whose remuneration is required to be disclosed.

	2011 $	2010 $

Note 23. Earnings Per Share

(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	65,025	37,911
	Number	**Number**
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	885,210	720,010

Note 24. Events Occurring After the Balance Sheet Date

On the 4th of August 2011 the company launched a Prospectus to raise the funds to open a branch at Rochester. The board expects it to be open in October.

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

Note 25. Contingent Liabilities

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

Note 26. Segment Reporting

The economic entity operates in the service sector where it facilitates **Community Bank®** services pursuant to a franchise agreement with Bendigo & Adelaide Bank Limited. The economic entity operates in one geographic area being the Elmore, Lockington and Rochester districts of Victoria.

Note 27. Registered Office/Principal Place of Business

The registered office and principal place of business is:

Registered Office	Principal Place of Business
62 Railway Place	62 Railway Place
Elmore Vic 3558	Elmore Vic 3558
	9-11 Lockington Road
	Lockington Vic 3558

Note 28. Financial Instruments

Net Fair Values

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

Credit Risk

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

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

Note 28. 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	
	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $	2011 %	2010 %
Financial Assets												
Cash and cash equivalents	97,822	135,939	300,000	250,000	-	-	-	-	-	-	5.11	3.96
Receivables	-	-	-	-	-	-	-	-	73,125	60,529	N/A	N/A
Financial Liabilities												
Interest bearing liabilities	-	-	11,731	13,410	15,098	24,273	-	-	-	-	7.80	7.8
Payables	-	-	-	-	-	-	-	-	39,674	27,053	N/A	N/A

Directors' declaration

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

In the opinion of the directors:

(a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:

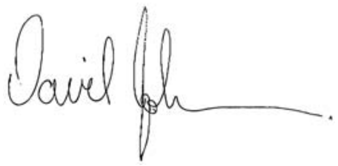
  (i) giving a true and fair view of the company's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and

  (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.



David John Johnson, Chairman

Signed on the 12th of August 2011.

Independent audit report

Partners in success

Chartered Accountants

Independent Auditor's Report To The Members Of Lockmore Financial Services Limited

Report on the Financial Report

We have audited the accompanying financial report of Lockmore Financial Services 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.

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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 Lockmore Financial Services Limited is in accordance with the Corporations Act 2001 including giving a true and fair view of the company's financial position as at 30 June 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 Lockmore Financial Services Limited for the year ended 30 June 2011, complies with section 300A of the Corporations Act 2001.

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

12th August 2011

Elmore/Lockington & Districts **Community Bank®** Branch

Elmore
62 Railway Place, Elmore VIC 3558
Phone: (03) 5432 6706   Fax: (03) 5432 6708

Lockington
9-11 Lockington Road, Lockington VIC 3563
Phone: (03) 5486 2304   Fax: (03) 5486 2435

Franchisee: Lockmore Financial Services Ltd
62 Railway Place, Elmore VIC 3558
ABN: 41 106 113 599

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Bendigo and Adelaide Bank Limited,
The Bendigo Centre, Bendigo VIC 3550
ABN 11 068 049 178. AFSL 237879.
(BMPAR11029) (07/11)

Bendigo Bank