Annual Report 2015

NorCen Financial Services Limited

ABN 32 119 493 113

Wallan & District **Community Bank®** Branch
Kilmore & District **Community Bank®** Branch

Contents

Chairman's report

For year ending 30 June 2015

It is with great pleasure I once again bring you the Chairman's report for 2014/15. This has been a big year for the company. As well as a year of strong growth and activity for Wallan & District **Community Bank**® Branch, we opened a second branch in Kilmore in December 2014 which has achieved amazing results in just over six months since we opened the doors. Whilst we budgeted for substantial growth at Kilmore which was optimistic what we didn't expect was the success that has come the way of the Kilmore & District **Community Bank**® Branch. At one point the Kilmore & District **Community Bank**® Branch was sitting in third place of successful growth in all Bendigo Bank **Community Bank**® branches Australia wide, unheard of for a brand new **Community Bank**® branch. This is all due to the remarkable management of Kevin Hannam and his dedicated staff. Wallan & District **Community Bank**® Branch has also still been hitting many targets and in the insurance area has on more than one occasion been at the top of the field for most successful outcomes. We were very fortunate that Tracey Charry second in command to Kevin Hannam previously at Wallan was appointed as the new manager of Wallan & District **Community Bank**® Branch and with the remaining original staff and new members of the team has also been kicking goals.

We proudly employed 11 local staff, before Kilmore opened. We now employ 16 people most of them locals boosting the economy and employment within the Mitchell Shire. More importantly, we have continued training, so all staff can perform many varied roles within the business. Our Managers have put considerable time and effort into ensuring we are future proofed.

Because of this very profitable financial year, we have again donated over $440,000 to 171 organisations. The total donations to the Mitchell Shire community, since opening in 2007 is over $1.6 million, which makes us incredibly proud, as the company has been operating just eight years and has given back each year since the beginning. This money has made a huge difference to so many clubs, schools and community groups. With our profits we were able to again pay our shareholders another dividend, thanking them for their confidence in supporting us those eight years ago and sticking with us during the leaner times.

We were saddened to say good bye to two Directors this year. David Pettman took up employment in the west of the state and could no longer participate in meetings. We also said a sad farewell to our inaugural Chairman Peter Roylance who has been a part of our journey from the early days of the Steering Committee. He has decided to take a back seat role continuing his involvement with the **Community Bank**® company as a Board Associate and stays a part of our family still sitting on the Sponsorship Committee. We thank Peter for his commitment to the branch and the community.

To fill these vacancies after completing a probationary period, we welcome two new Directors to the Board this year, Terry Dobson from Kilmore and Lee Day from Broadford. I am thrilled to have another female Director on the Board, which means our gender balance is getting closer to 50/50 which is a goal of the Board, to be able to represent the whole of our community we serve both geographically and gender based. Lee is a younger woman and gives us some youth on the Board

It has been a challenging year with the logistics of opening a new branch being quite daunting we ploughed on and are still very excited with the opening of Kilmore & District **Community Bank**® Branch and at how well it has performed. I wish to thank my fellow Directors for the time commitment they give to NorCen FSL Board. We are the envy of **Community Bank**® branches throughout Australia with our ever-growing success. We look forward to many exciting new happenings in 2016.

Chairman's report (continued)

I also wish to thank our Company Secretary, Georgie Davie for her outstanding ability to make us all look good and keep us on the straight and narrow. Her work and assistance has been a great benefit to the Board, shareholders and especially me. We also continue to have strong partnerships with key Bendigo Bank regional staff that assist us in many ways.

All this could not be possible without our Branch Managers, Kevin Hannam, and Tracey Charry. Both have given above and beyond this year to bring the success we have had. Our thanks also goes to our wonderful staff both original and new who are our greatest assets They have all given so much this past year with many challenges thrown at them but the smiles you receive when you walk in the door are genuine as is the way they efficiently handle all your financial needs.

I will be stepping down from the Chairman's role after this Annual General Meeting as I believe in keeping the Board fresh and allowing others to take on the responsibility of leading rather than one person stagnating at the top and holding the Board back. A new Chair brings with them new enthusiasm and ideas for the coming years. I wish the new Chairman whomever it may be the best and I hope they enjoy the role as much as I have serving the community.

Sue Marstaeller
Chairman

Wallan Manager's report

For year ending 30 June 2015

It is with pleasure that I submit my first report as Branch Manager of Wallan & District **Community Bank**® Branch for Norcen Financial Services Limited Annual General Meeting 2015.

I would like to personally thank Kevin Hannam for his support, guidance and experience he has provided to me in the five plus years under his successful management. I wish Kevin all the best in his continued role at our new Kilmore & District **Community Bank**® Branch and together with his staff, look forward to our continued future branch successes together.

I would also like to thank our Chair Sue Marstaeller and Directors of our Board for their tireless efforts, support and encouragement in our team to continue with the high standards and level of service that our shareholders and customers have come to know.

Our ability to support local community groups is only possible because of our wonderful customers who continue to embrace our **Community Bank**® branches. Their support and increasing use of all our banking services is crucial to our success. Many are now advocates having seen first hand how we contribute to support their local community organisations. We appreciate and value their support and will continue in our efforts to exceed their expectations.

The branch continues to excel in all areas, as at 30 June we had $174.7 million on our books. We now service 4,544 customers, who are supporting their community by banking with us. We continue to open new accounts with an average of 70 accounts being opened each month.

The above results have not been achieved without a great deal of hard work, passion and dedication by a great team of staff. It gives me a great deal of pleasure to welcome aboard and acknowledge our new team members: Jennifer Michelsson, Julie Cannan, Jackie Ginefra, Louise Costa and Kirsty Reid whilst also acknowledging and thanking our existing team members: Kirsty Goddard and Erin McDonald for their commitment and on-going support for all your hard work, dedication and outstanding customer service that you always provide.

To our shareholders, I thank you for your support. Please consider if you are not currently banking with the Wallan & District **Community Bank**® Branch, please visit the branch, and speak to me or our personable staff about all your financial services or banking needs.

Together we are building a stronger community.

Remember, we are a full service bank, but it's **bigger** than that. I encourage you to consider the difference your banking makes to the Wallan & District Community, and ultimately the benefits you as shareholders receive from our continued growth and profit.

Tracey Charry
Branch Manager

Kilmore Manager's report

For year ending 30 June 2015

I am pleased to present my inaugural report for the Kilmore & District **Community Bank**® Branch. It took a few years to get Kilmore up and running but it has certainly been worth the wait. Our expectations when opening the new branch in December, were for us to achieve around $40 million in business by the end of the financial year.

After re-domiciling $30 million of Kilmore business already held at Wallan & District **Community Bank**® Branch, and with the support of the local community, we have far exceeded our most optimistic expectations. As at 30 June 2015 we have $41.8 million in loans and $28.7 million in deposits, a total of $70.5 million in business. Between our two branches we now hold over $245 million in local business. This has allowed us to return $440,000 in sponsorships and grants to our local communities. Our total now exceeds $1.6 million in the past eight years, something myself, Wallan & District **Community Bank**® Branch Manager, Tracey, our respective teams and the Board of Directors are extremely proud of.

Our team at Kilmore is made up of a few existing staff, Laura Moran, Shelley McLean and Leanne Paice, plus three new members Leanne Cook, Melissa Hall and Andrea Lever. Kilmore now has a level of quality banking service that cannot be matched by any other financial services business in the town. We have duplicated the excellence of service provided at Wallan for the past seven years. The above growth is proof that people want to bank with an organisation that provides great service and contributes back to the community. Our two **Community Bank**® branches are the envy of the entire **Community Bank**® network.

To achieve the above takes not only a great team but great teamwork. I would like to personally thank each and every one of the staff at both Kilmore and Wallan for their dedication, commitment to excellence and importantly making coming to work a real pleasure. Our teams are backed up by a supportive, hardworking Board of Directors, capably led by Chair Sue Marstaeller and her right hand person, Georgie Davie. We also continue to have the full support of our Regional Office team led by our Regional Manager, Jodie McLeod.

Whilst being satisfied with our achievements so far in Kilmore, I am even hungrier to grow our business and I look to the local community to help us with this growth. We are all aware of the benefits of supporting our local **Community Bank**® branches.

Kevin Hannam
Branch Manager

Directors' report

For the financial year ended 30 June 2015

Your directors submit the financial statements of the company for the financial year ended 30 June 2015.

Directors

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

Susan Louise Marstaeller
Chairman
Occupation: Councillor
Qualifications, experience and expertise: Councillor for Mitchell Shire Council for 13 years, twice Mayor, finance, audit and governance experience, Justice of the Peace Victoria, Director Central Ranges LLEN.
Special responsibilities: Community Investment, Audit, Marketing and PR, HR
Interest in shares: 5,002

Bruce Harold Edward Nicholls
Deputy Chairman
Occupation: Director
Former Trade Commissioner and Public company director.
Current: Director, Port of Melbourne Corporation.
Community involvement: Rotary, CFA, Landcare, Broadford Australia Day Festival.
Special responsibilities: Deputy Chairman
Interest in shares: 31,824

David Allan Wheeler
Treasurer
Occupation: Company Director
Qualifications, experience and expertise: 20 years self employed running a small business. Prior experience in real estate, finance and marketing. Was director and treasurer of Valley Community Financial Services Limited which operated 5 **Community Bank®** franchises in the Diamond Valley for 13 years. Chairman of Kilmore **Community Bank®** Steering Committee.
Special responsibilities: Budget and Audit Committee, Community Investment, Marketing
Interest in shares: 11,600

Gregory Claude Marshall
Director
Occupation: Retired
Qualifications, experience and expertise: Prior to retirement employed for 45 years in commercial construction. Involved in quantity surveying, building estimating and in the last 10 years took over the managing directorship over this private building company being responsible for the overall running of the business.
Special responsibilities: Chairman Community Investment Committee, Member of Procurement & Properties Committee.
Interest in shares: 4,000

Andrzej Krzysztof Skora
Director
Occupation: Accountant
Qualifications, experience and expertise: B. Bus (Acc)
Special responsibilities: LVM
Interest in shares: 4,002

Directors' report (continued)

Directors (continued)

David John Ford
Director
Occupation: Senior OH&S Advisor
Qualifications, experience and expertise: Diploma OH&S, Diploma Auditing - Education tertiary. President Wallan Primary School for 5 years. Senior OH&S advisor Western Health for 7 years. Fire Brigade (Emergency Services - Yallourn Energy) 13 years.
Special responsibilities: Risk, Procurement
Interest in shares: 55,000

Kathleen Mary Holland
Director
Occupation: Manager
Qualifications, experience and expertise: B.Sc. Owner and manager of GP clinic in Wallan since 2001. Co-ordinator Junior Tennis Kilmore, Former President Kilmore Toy Library, member of Rotary since 2013
Special responsibilities: Chair for Marketing and PR Committee, Community Investment Committee
Interest in shares: 2,000

Walter Hilaire Mott
Director
Occupation: Self employed Managing Director of the Crystalgroup of companies 1978
Qualifications, experience and expertise: Director of the Leader Media Group Pty Ltd 1980-86. Director of North East Broadcasters Ltd and North East Broadcasters Pty Ltd 1996. Chairman and Managing Director of several companies. 51 years involved in the newspaper and printing industry, 19 years involved with regional radio, 29 years in property investment and development, 36 years farming in the Whittlesea and Mitchell Districts.Formal Qualifications include Apprenticeship at the Melbourne School of Printing and Graphic Arts. Life Member Whittlesea Agricultural Society.
Special responsibilities: Chair of the Audit Governance and Risk Committee, Chair Budget Committee, Member HR Committee and Strategic Planning
Interest in shares: 121,736

Peter Anthony Roylance
Director (Resigned 28 July 2015)
Occupation: Electrical Supervisor
Interest in shares: 2,002
David Pettman
Director (Resigned 25 November 2014)
Occupation: Quarry Administrator
Interest in shares: 5,000

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

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

Company Secretary

The company secretary is Georgina Davie. Gerogina was appointed to the position of secretary on 5 February 2013.

Georgina Davie was appointed as a non-director Company Secretary on 5 February 2013 and is remunerated at commercial rates. Her experience includes various Human Resources and Administrator roles and she has obtained her Certificate IV in Workplace Training and Assessment. Georgina has completed several Bendigo Bank training courses - Company Secretary, conducting Annual General Meeting, Annual Report compilation and has her Low Volume Market Accreditation.

Directors' report (continued)

Principal Activities

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

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

Operating results

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

Year ended 30 June 2015 $	Year ended 30 June 2014 $
160,511	327,001

Directors' Remuneration Report

For the year ended 30 June 2015 the directors received total remuneration including superannuation, as follows:

	$
Susan Louise Marstaeller	5,000
Bruce Harold Edward Nicholls	1,500
David Allan Wheeler	4,000
Gregory Claude Marshall	1,500
Andrzej Krzysztof Skora	1,500
David John Ford	1,500
Kathleen Mary Holland	1,500
Walter Hilaire Mott	1,500
Peter Anthony Roylance (Resigned 28 July 2015)	-
David Pettman (Resigned 25 November 2014)	375
	18,375

Transactions with directors

Remuneration paid to Directors is not based on company performance but rather seen as a means to cover the expenses incurred by Directors as they carry out their duties to the company. Total remuneration paid to Directors for the year ended June 30th was $18,375.00. The proposed collective remuneration available for Directors be increased from $23,000 to $25,000 to accommodate 11 directors. It is noted that the Board of Directors determines each directors remuneration.

Directors' Remuneration Report (continued)

Transactions with directors (continued)

	$
Walter Mott, Director of Newspaper House Pty Ltd - Advertising	22,956
Walter Mott, Director James Yeates Printing Pty Ltd - Signage	374
Walter Mott, Shareholder Crystal Group Pty Ltd - Advertising Wellington Square Shopping Centre	1,200

Directors' shareholdings

	Balance at start of the year	Changes during the year	Balance at end of the year
Susan Louise Marstaeller	5,002	-	5,002
Bruce Harold Edward Nicholls	31,824	-	31,824
David Allan Wheeler	11,600	-	11,600
Gregory Claude Marshall	4,000	-	4,000
Andrzej Krzysztof Skora	4,002	-	4,002
David John Ford	32,000	23,000	55,000
Kathleen Mary Holland	2,000	-	2,000
Walter Hilaire Mott	116,736	5,000	121,736
Peter Anthony Roylance (Resigned 28 July 2015)	2,002	-	2,002
David Pettman (Resigned 25 November 2014)	5,000	-	5,000

Dividends

	Year ended 30 June 2015	
	Cents	$
Dividends paid in the year	7	129,200

Significant changes in the state of affairs

A second **Community Bank**® branch at Kilmore was opened for business in the period following a prospectus issued on 19 December 2014.

In the opinion of the directors there were no other 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.

Events since 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.

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		Human Resources	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Susan Louise Marstaeller	12	11	3	3	6	5
Bruce Harold Edward Nicholls	12	11	-	-	-	-
David Allan Wheeler	12	12	3	2	-	-
Gregory Claude Marshall	12	10	-	-	-	-
Andrzej Krzysztof Skora	12	9	-	-	-	-
David John Ford	12	11	-	-	-	-
Kathleen Mary Holland	12	7	-	-	-	-
Walter Hilaire Mott	12	11	3	3	6	5
Peter Anthony Roylance (Resigned 28 July 2015)	12	6	-	-	-	-
David Pettman (Resigned 25 November 2014)	5	3	-	-	-	-

Directors' report (continued)

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

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.

Non audit services (continued)

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.

Auditor's independence declaration

A copy of the auditor's 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 Wallan, Victoria on 28 September 2015.

Susan Louise Marstaeller,
Chairman

Auditor’s independence declaration

AFS
Partners in success
Chartered Accountants

Lead auditor’s independence declaration under section 307C of the *Corporations Act 2001* to the directors of NorCen Financial Services Ltd

As lead auditor for the audit of NorCen Financial Services Ltd for the year ended 30 June 2015, I declare that, to the best of my knowledge and belief, there have been:

i) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550

David Hutchings
Lead Auditor

Dated: 28 September 2015

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

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Financial statements

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2015

	Notes	2015 $	2014 $
Revenue from ordinary activities	4	2,106,924	1,929,605
Employee benefits expense		(992,389)	(672,833)
Charitable donations, sponsorship, advertising and promotion		(490,782)	(459,534)
Occupancy and associated costs		(135,608)	(90,484)
Systems costs		(44,400)	(24,124)
Depreciation and amortisation expense	5	(32,781)	(17,239)
Finance costs	5	(1,389)	-
General administration expenses		(203,528)	(189,613)
Profit before income tax expense		**206,047**	**475,778**
Income tax expense	6	(45,536)	(148,777)
Profit after income tax expense		**160,511**	**327,001**
Total comprehensive income for the year		**160,511**	**327,001**
Earnings per share for profit attributable to the ordinary shareholders of the company:		**¢**	**¢**
Basic earnings per share	21	9.30	20.01

The accompanying notes form part of these financial statements.

Balance Sheet
as at 30 June 2015

	Notes	2015 $	2014 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	853,439	1,118,854
Trade and other receivables	8	188,701	180,526
Current tax asset	11	595	-
Total Current Assets		**1,042,735**	**1,299,380**
Non-Current Assets			
Property, plant and equipment	9	639,831	244,059
Intangible assets	10	75,095	6,739
Deferred tax asset	11	22,490	-
Total Non-Current Assets		**737,416**	**250,798**
Total Assets		**1,780,151**	**1,550,178**
LIABILITIES			
Current Liabilities			
Trade and other payables	12	86,965	107,340
Current tax liabilities	11	-	23,599
Provisions	13	62,126	23,788
Total Current Liabilities		**149,091**	**154,727**
Non-Current Liabilities			
Provisions	13	13,921	13,693
Total Non-Current Liabilities		**13,921**	**13,693**
Total Liabilities		**163,012**	**168,420**
Net Assets		**1,617,139**	**1,381,758**
Equity			
Issued capital	14	1,003,089	799,019
Retained earnings	15	614,050	582,739
Total Equity		**1,617,139**	**1,381,758**

The accompanying notes form part of these financial statements.

Statement of Changes in Equity for the year ended 30 June 2015

	Issued capital $	Retained earnings $	Total equity $
Balance at 1 July 2013	**799,019**	**337,439**	**1,136,458**
Total comprehensive income for the year	**-**	**327,001**	**327,001**
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(81,701)	(81,701)
Balance at 30 June 2014	**799,019**	**582,739**	**1,381,758**
Balance at 1 July 2014	**799,019**	**582,739**	**1,381,758**
Total comprehensive income for the year	**-**	**160,511**	**160,511**
Transactions with owners in their capacity as owners:			
Shares issued during period	211,700	-	211,700
Costs of issuing shares	(7,630)	-	(7,630)
Dividends provided for or paid	-	(129,200)	(129,200)
Balance at 30 June 2015	**1,003,089**	**614,050**	**1,617,139**

The accompanying notes form part of these financial statements.

Statement of Cash Flows for the year ended 30 June 2015

	Notes	2015 $	2014 $
Cash flows from operating activities			
Receipts from customers		2,244,416	2,065,150
Payments to suppliers and employees		(2,027,454)	(1,527,101)
Interest received		33,270	39,032
Interest paid		(1,388)	-
Income taxes paid		(92,220)	(264,497)
Net cash provided by operating activities	**16**	**156,624**	**312,584**
Cash flows from investing activities			
Payments for property, plant and equipment		(416,908)	-
Payments for intangible assets		(80,000)	-
Net cash provided by/(used in) investing activities		**(496,908)**	**-**
Cash flows from financing activities			
Proceeds of share issues		211,700	-
Payment of share issue costs		(7,631)	-
Dividends paid		(129,200)	(81,701)
Net cash provided by/(used in) financing activities		**74,869**	**(81,701)**
Net increase/(decrease) in cash held		**(265,415)**	**230,883**
Cash and cash equivalents at the beginning of the financial year		1,118,854	887,971
Cash and cash equivalents at the end of the financial year	**7(a)**	**853,439**	**1,118,854**

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2015

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.

Application of new and amended accounting standards

The following amendments to accounting standards and a new interpretation issued by the Australian Accounting Standards Board (AASB) became mandatorily effective for accounting periods beginning on or after 1 July 2014, and are therefore relevant for the current financial year.

- AASB 2012-3 Amendments to Australian Accounting Standards (AASB 132) – Offsetting Financial Assets and Financial Liabilities.
- AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets.
- AASB 2013-4 Amendments to Australian Accounting Standards (AASB 139) – Novation of Derivatives and Continuation of Hedge Accounting.
- AASB 2013-5 Amendments to Australian Accounting Standards (AASB 10) – Investment Entities.
- AASB 2014-1 Amendments to Australian Accounting Standards (Part A: Annual Improvements 2010-2012 and 2011-2013 Cycles).
- AASB 2014-1 Amendments to Australian Accounting Standards (Part B: Defined Benefit Plans: Employee Contributions Amendments to AASB 119).

Note 1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Application of new and amended accounting standards (continued)

- Interpretation 21 Levies.
- AASB 1031 Materiality, AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part B: Materiality), AASB 2014-1 Amendments to Australian Accounting Standards (Part C: Materiality).

None of the amendments to accounting standards or the new interpretation issued by the Australian Accounting Standards Board (AASB) that became mandatorily effective for accounting periods beginning on or after 1 July 2014, materially affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

The following accounting standards and interpretations issued by the Australian Accounting Standards Board (AASB) become effective in future accounting periods.

	Effective for annual reporting periods beginning on or after
AASB 9 Financial Instruments, and the relevant amending standards.	1 January 2018
AASB 15 Revenue from Contracts with Customers and AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15.	1 January 2017
AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations.	1 January 2016
AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation.	1 January 2016
AASB 2014-6 Amendments to Australian Accounting Standards – Agriculture: Bearer Plants.	1 January 2016
AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements.	1 January 2016
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.	1 January 2016
AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle.	1 January 2016
AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101.	1 January 2016
AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality.	1 July 2015
AASB 2015-4 Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent.	1 July 2015
AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception.	1 January 2016

Note 1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Application of new and amended accounting standards (continued)

The company has not elected to apply any accounting standards or interpretations before their mandatory operative date for the annual reporting period beginning 1 July 2014. Therefore the abovementioned accounting standards or interpretations have no impact on amounts recognised in the current period or any prior period.

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 Wallan and Kilmore.

The branches operate 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®** branches 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.

The company promotes and sells the products and services, but is not a party to the transaction.

The credit risk (i.e. the risk that a customer will not make repayments) is for the relevant Bendigo and Adelaide Bank Limited entity to bear as long as the company has complied with the appropriate procedures and relevant obligations and has not exercised a discretion in granting or extending credit.

Bendigo and Adelaide Bank Limited provides significant assistance in establishing and maintaining the **Community Bank®** branches 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
- 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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

b) Revenue

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits 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

Over the period from September 2013 to February 2015, Bendigo and Adelaide Bank Limited conducted a review of the **Community Bank**® model, known as 'Project Horizon'. This was conducted in consultation with the **Community Bank**® network. The objective of the review was to develop a shared vision of the **Community Bank**® model that positions it for success now and for the future.

The outcome of that review is that the fundamental franchise model and community participation remain unchanged. Changes to be implemented over a three year period reflect a number of themes, including a culture of innovation, agility and flexibility, network collaboration, director and staff development and a sustainable financial model. This will include changes to the financial return for **Community Bank**® companies from 1 July 2016. A funds transfer pricing model will be used for the method of calculation of the cost of funds, deposit return and margin. All revenue paid on core banking products will be through margin share. Margin on core banking products will be shared on a 50/50 basis.

The franchise agreement provides that three forms of revenue may be earned by the company – margin, commission and fee income. Bendigo and Adelaide Bank Limited decides the form of revenue the company earns on different types of products and services.

The revenue earned by the company is dependent on the business that it generates. It may also be affected by other factors, such as economic and local conditions, for example, interest rates.

Core banking products

Bendigo and Adelaide Bank Limited has identified some Bendigo Bank Group products and services as 'core banking products'. It may change the products and services which are identified as core banking products by giving the company at least 30 days' notice. Core banking products currently include Bendigo Bank branded home loans, term deposits and at call deposits.

Margin

Margin is arrived at through the following calculation:

- Interest paid by customers on loans less interest paid to customers on deposits,
- plus any deposit returns i.e. interest return applied by Bendigo and Adelaide Bank Limited for a deposit,
- minus any costs of funds i.e. interest applied by Bendigo and Adelaide Bank Limited to fund a loan.

Note: In very simplified terms, currently, deposit return means the interest Bendigo and Adelaide Bank Limited gets when it invests the money the customer deposits with it. The cost of funds means the interest Bendigo and Adelaide Bank Limited pays when it borrows the money to give a customer a loan. From 1 July 2016, both will mean the cost for Bendigo and Adelaide Bank Limited to borrow the money in the market.

Products and services on which margin is paid include variable rate deposits and variable rate home loans. From 1 July 2016, examples include Bendigo Bank branded at call deposits, term deposits and home loans.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

b) Revenue (continued)

Margin (continued)

For those products and services on which margin is paid, the company is entitled to a share of the margin earned by Bendigo and Adelaide Bank Limited (i.e. income adjusted for Bendigo and Adelaide Bank Limited's interest expense and interest income return). However, if this reflects a loss, the company incurs a share of that loss.

Commission

Commission is a fee paid for products and services sold. It may be paid on the initial sale or on an ongoing basis. Commission is payable on the sale of an insurance product such as home contents. Examples of products and services on which ongoing commissions are paid include leasing and Sandhurst Trustees Limited products. This currently also includes Bendigo Bank branded fixed rate home loans and term deposits of more than 90 days, but these will become margin products from 1 July 2016.

Fee income

Fee income is a share of what is commonly referred to as 'bank fees and charges' charged to customers by Bendigo Bank Group entities including fees for loan applications and account transactions.

Ability to change financial return

Under the franchise agreement, Bendigo and Adelaide Bank Limited may change the form and amount of financial return that the company receives. The reasons it may make a change include changes in industry or economic conditions or changes in the way Bendigo and Adelaide Bank Limited earns revenue.
The change may be to the method of calculation of margin, the amount of margin, commission and fee income or a change of a margin to a commission or vice versa. This may affect the amount of revenue the company receives on a particular product or service. The effect of the change on the revenue earned by the company is entirely dependent on the change.

The change may be to the method of calculation of margin, the amount of margin, commission and fee income or a change of a margin to a commission or vice versa. This may affect the amount of revenue the company receives on a particular product or service. The effect of the change on the revenue earned by the company is entirely dependent on the change.

If Bendigo and Adelaide Bank Limited makes a change to the margin or commission on core banking products and services, it must not reduce the margin and commission the company receives on core banking products and services Bendigo and Adelaide Bank Limited attributes to the company to less than 50% (on an aggregate basis) of Bendigo and Adelaide Bank Limited's margin at that time. For other products and services, there is no restriction on the change Bendigo and Adelaide Bank Limited may make.

Bendigo and Adelaide Bank Limited must give the company 30 days' notice before it changes the products and services on which margin, commission or fee income is paid, the method of calculation of margin and the amount of margin, commission or fee income.

Monitoring and changing financial return

Bendigo and Adelaide Bank Limited monitors the distribution of financial return between **Community Bank**® companies and Bendigo and Adelaide Bank Limited on an ongoing basis.

Overall, Bendigo and Adelaide Bank Limited has made it clear that the **Community Bank**® model is based on the principle of shared reward for shared effort. In particular, in relation to core banking products and services, the aim is to achieve an equal share of Bendigo and Adelaide Bank Limited's margin.

Note 1. Summary of significant accounting policies (continued)

b) Revenue (continued)

Monitoring and changing financial return (continued)

As discussed above in relation to Project Horizon, among other things, there will be changes in the financial return for **Community Bank**® companies from 1 July 2016. This includes 50% share of margin on core banking products, all core banking products become margin products and a funds transfer pricing model will be used for the method of calculation of the cost of funds, deposit return and margin.

c) Income tax

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

Note 1. Summary of significant accounting policies (continued)

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 are 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.

Note 1. Summary of significant accounting policies (continued)

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) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with changes in such fair value (i.e. gains or losses) recognised in the Statement of Profit or Loss and Other Comprehensive Income. Available-for-sale financial assets are included in non-current assets except where they are expected to be sold within 12 months after the end of the reporting period. All other financial assets are classified as current assets.

(iv) Financial liabilities

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

Note 1. Summary of significant accounting policies (continued)

k) Financial instruments (continued)

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 Profit or Loss and Other Comprehensive Income.

l) Leases

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

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

m) Provisions

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

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

n) Contributed equity

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

o) Earnings per share

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

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:

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 where 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)

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 2015 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. There is therefore 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 Profit or Loss and Other 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.

Note 3. Critical accounting estimates and judgements (continued)

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.

	2015 $	**2014 $**
Note 4. Revenue from ordinary activities		
Operating activities:		
- services commissions	2,073,654	1,877,994
Total revenue from operating activities	**2,073,654**	**1,877,994**
Non-operating activities:		
- interest received	33,270	40,413
- other revenue	-	11,198
Total revenue from non-operating activities	**33,270**	**51,611**
Total revenues from ordinary activities	**2,106,924**	**1,929,605**

Notes to the financial statements (continued)

	2015 $	2014 $

Note 5. Expenses

Depreciation of non-current assets:		
- plant and equipment	21,137	14,928
Amortisation of non-current assets:		
- franchise agreement	3,477	-
- franchise renewal fee	8,167	2,311
	32,781	**17,239**
Finance costs:		
- interest paid	**1,389**	**-**
Bad debts	**1,350**	**1,187**

Note 6. Income tax expense

The components of tax expense comprise:		
- Current tax	76,768	148,777
- Future income tax benefit attributable to losses	(23,674)	-
- Recoupment of prior year tax losses	1,184	-
- Under/(Over) provision of tax in the prior period	(8,742)	-
	45,536	**148,777**
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows		
Operating profit	206,047	475,778
Prima facie tax on profit from ordinary activities at 30%	61,814	142,733
Add tax effect of:		
- non-deductible expenses	4,901	6,044
- timing difference expenses	10,053	-
	76,768	**148,777**
Movement in deferred tax	(23,674)	-
Adjustment to deferred tax to reflect change of tax rate in future periods	1,184	-
Under/(Over) provision of income tax in the prior year	(8,742)	-
	45,536	**148,777**

	2015 $	2014 $

Note 7. Cash and cash equivalents

Cash at bank and on hand	234,781	14,617
Term deposits	618,658	1,104,237
	853,439	**1,118,854**
Note 7.(a) Reconciliation to cash flow statement		
The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year as follows:		
Cash at bank and on hand	234,781	14,617
Term deposits	618,658	1,104,237
	853,439	**1,118,854**

Note 8. Trade and other receivables

Trade receivables	162,525	172,955
Prepayments	18,605	-
Other receivables and accruals	7,571	7,571
	188,701	**180,526**

Note 9. Property, plant and equipment

Land and buildings		
Buildings		
At cost	712,352	308,157
Less accumulated depreciation	(92,408)	(74,678)
	619,944	**233,479**
Plant and equipment		
At cost	48,190	35,476
Less accumulated depreciation	(28,303)	(24,896)
	19,887	**10,580**
Total written down amount	**639,831**	**244,059**

	2015 $	2014 $

Note 9. Property, plant and equipment (continued)

Movements in carrying amounts:		
Buildings		
Carrying amount at beginning	233,479	-
Additions	404,195	308,157
Disposals	-	-
Less: depreciation expense	(17,730)	(74,678)
Carrying amount at end	**619,944**	**233,479**
Plant and equipment		
Carrying amount at beginning	10,580	-
Additions	12,714	35,476
Disposals	-	-
Less: depreciation expense	(3,407)	(24,896)
Carrying amount at end	**19,887**	**10,580**
Total written down amount	**639,831**	**244,059**

Note 10. Intangible assets

Franchise fee		
At cost	31,554	21,554
Less: accumulated amortisation	(18,292)	(14,815)
	13,262	**6,739**
Establishment fee		
At cost	170,000	100,000
Less: accumulated amortisation	(108,167)	(100,000)
	61,833	**-**
Total written down amount	**75,095**	**6,739**

Note 11. Tax

Current:		
Income tax payable/(refundable)	**(595)**	**23,599**

Notes to the financial statements (continued)

	2015 $	2014 $

Note 11. Tax (continued)

	2015 $	2014 $
Non-Current:		
Deferred tax assets		
- accruals	817	-
- employee provisions	21,673	-
	22,490	**-**
Net deferred tax asset	**22,490**	**-**
Movement in deferred tax charged to statement of comprehensive income	**(22,490)**	**-**

Note 12. Trade and other payables

	2015 $	2014 $
Current:		
Trade creditors	22,783	29,284
Other creditors and accruals	64,182	78,056
	86,965	**107,340**

Note 13. Provisions

	2015 $	2014 $
Current:		
Provision for annual leave	40,437	23,788
Provision for long service leave	21,689	-
	62,126	**23,788**
Non-Current:		
Provision for long service leave	**13,921**	**13,693**

Note 14. Contributed equity

	2015 $	2014 $
Opening balance 1 July 2014 - 817,010 ordinary shares fully paid	817,010	817,010
211,700 shares issued under the Kilmore prospectus dated 19 December 2014	211,700	-
Total ordinary shares fully paid 30 June 2015	1,028,710	817,010
Less: equity raising expenses	(25,621)	(17,991)
	1,003,089	**799,019**

Note 14. Contributed equity (continued)

Rights attached to shares

(a) Voting rights

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

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

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

Note 14. Contributed equity (continued)

Rights attached to shares (continued)

(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 2001.

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 386. As at the date of this report, the company had 426 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.

Note 14. Contributed equity (continued)

Prohibited shareholding interest (continued)

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

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.

	2015 $	2014 $

Note 15. Retained earnings

Balance at the beginning of the financial year	582,739	337,439
Net profit from ordinary activities after income tax	160,511	327,001
Dividends paid or provided for	(129,200)	(81,701)
Balance at the end of the financial year	**614,050**	**582,739**

Note 16. Statement of cash flows

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

Profit from ordinary activities after income tax	160,511	327,001
Non cash items:		
- depreciation	21,137	14,928
- amortisation	11,644	2,311
Changes in assets and liabilities:		
- (increase)/decrease in receivables	(8,175)	(6,533)
- (increase)/decrease in other assets	(23,085)	-
- increase/(decrease) in payables	(20,375)	12,365
- increase/(decrease) in provisions	38,566	10,670
- increase/(decrease) in current tax liabilities	(23,599)	(48,158)
Net cash flows provided by operating activities	**156,624**	**312,584**

	2015 $	2014 $

Note 17. Leases

Operating lease commitments

	2015 $	2014 $
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable - minimum lease payments:		
- not later than 12 months	87,900	87,900
- between 12 months and 5 years	164,992	252,893
- greater than 5 years	-	-
	252,892	**340,793**

The Wallan property lease was renewed to bring into line with Kilmore. The lease is due for renewal on 1 June 2019.

The Kilmore property lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. The lease has extension provisions for 2 further five year options available. The lease is due for renewal in 12 June 2019.

Note 18. Auditor's remuneration

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

	2015 $	2014 $
- audit and review services (RSD)	-	4,582
- audit and review services (AFS)	2,600	-
- share registry services	5,328	2,629
- non audit services	5,341	4,350
	13,269	**11,561**

Note 19. Director and related party disclosures

Directors of the company receive remuneration as disclosed in the Directors' Remuneration Report.

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

	2015 $	2014 $
Key Management Personnel Remuneration		
Short-term employee benefits	18,375	19,000
	18,375	**19,000**

Detailed remuneration disclosures are provided in the remuneration report, included as part of the directors' report.

	2015 $	2014 $
Note 19. Director and related party disclosures (continued)		
Transactions with Key Management Personnel		
Walter Mott, Director of Newspaper House Pty Ltd - Advertising	22,956	15,760
Walter Mott, Director James Yeates Printing Pty Ltd - Signage	374	-
Walter Mott, Shareholder Crystal Group Pty Ltd - Advertising Wellington Square Shopping Centre	1,200	-

	2015	2014
Key Management Personnel Shareholdings		
Ordinary shares fully paid	242,166	214,166

Detailed shareholding disclosures are provided in the remuneration report, included as part of the directors' report.

	2015 $	2014 $

Note 20. Dividends paid or provided

	2015 $	2014 $
a. Dividends paid during the year		
Current year dividend		
100% (2014: 100%) franked dividend - 7 cents (2014: 5 cents) per share	**129,200**	**81,701**
The tax rate at which dividends have been franked is 30% (2014: 30%).		
Dividends proposed will be franked at a rate of 30% (2014: 30%).		
b. Franking account balance		
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	363,328	281,569
- franking credits/(debits) that will arise from payment/(refund) of income tax as at the end of the financial year	(595)	23,599
- 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:	**362,733**	**305,168**
- 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	**362,733**	**305,168**

Note 21. Earnings per share

		2015 $	2014 $
(a)	Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	160,511	327,001
		Number	**Number**
(b)	Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,726,820	1,634,020

Note 22. Events occurring after the reporting date

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

Note 23. Contingent liabilities and contingent assets

The company has entered into a funding agreement with the Hadfield Park Playspace Project to contribute $500,000 to the association over the nex two years.

There were no other contingent liabilities or contingent assets 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 Wallan and Kilmore, Victoria pursuant to a franchise agreement with Bendigo and Adelaide Bank Limited.

Note 25. Registered office/Principal place of business

The entity is a company limited by shares, incorporated and domiciled in Australia. The registered office and principal place of business is:

Registered Office	Principal Place of Business
Unit 1 51 High Street Wallan VIC 3756	Unit 1 51 High Street Wallan VIC 3756
	75A Sydney Street Kilmore VIC 3764

Note 26. Financial instruments

Financial Instrument Composition and Maturity Analysis

The table below reflects the undiscounted contractual settlement terms for all financial instruments, as well as the settlement period for instruments with a fixed period of maturity and interest rate.

Financial instrument	Floating interest		Fixed interest rate maturing in						Non interest bearing		Weighted average	
			1 year or less		Over 1 to 5 years		Over 5 years					
	2015 $	2014 $	2015 $	2014 $	2015 $	2014 $	2015 $	2014 $	2015 $	2014 $	2015 %	2014 %
Financial assets												
Cash and cash equivalents	234,781	14,617	618,658	1,104,237	-	-	-	-	-	-	3.23	3.71
Receivables	-	-	-	-	-	-	-	-	162,525	172,955	N/A	N/A
Financial liabilities												
Payables	-	-	-	-	-	-	-	-	22,783	29,284	N/A	N/A

Net Fair Values

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

Credit Risk

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

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

Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from the interest bearing financial assets and liabilities in place subject to variable interest rates, as outlined above.

Sensitivity Analysis

The company has performed sensitivity analysis relating to its exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in interest rates.

Note 26. Financial instruments (continued)

Sensitivity Analysis (continued)

As at 30 June 2015, the effect on profit and equity as a result of changes in interest rate, with all other variables remaining constant would be as follows:

	2015 $	**2014 $**
Change in profit/(loss)		
Increase in interest rate by 1%	8,534	11,189
Decrease in interest rate by 1%	8,534	11,189
Change in equity		
Increase in interest rate by 1%	8,534	11,189
Decrease in interest rate by 1%	8,534	11,189

Directors’ declaration

In accordance with a resolution of the directors of Norcen 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 2015 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.

Susan Louise Marstaeller,
Chairman

Signed on the 28th of September 2015.

Partners in success

Chartered Accountants

Independent auditor's report to the members of NorCen Financial Services Ltd

Report on the financial report

We have audited the accompanying financial report of NorCen Financial Services Ltd, which comprises the balance sheet as at 30 June 2015, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows 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 that gives a true and fair view 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 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 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 fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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

TAXATION • AUDIT • BUSINESS SERVICES • FINANCIAL PLANNING

Independent audit report (continued)

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written auditor's independence declaration, a copy of which is included in the directors' report.

Auditor's opinion on the financial report

In our opinion:

1. The financial report of NorCen Financial Services Ltd 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 2015 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 2015. 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 on the remuneration report

In our opinion, the remuneration report of NorCen Financial Services Ltd for the year ended 30 June 2015, complies with section 300A of the *Corporations Act 2001*.

Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550

David Hutchings
Lead Auditor

Dated: 28 September 2015

Wallan & District **Community Bank®** Branch
1/51 High Street, Wallan VIC 3756
Phone: (03) 5783 2422
www.bendigobank.com.au/wallan

Kilmore & District **Community Bank®** Branch
75A Sydney Street, Kilmore VIC 3764
Phone: (03) 5781 0066
www.bendigobank.com.au/kilmore

Franchisee: NorCen Financial Services Limited
PO Box 368, Wallan VIC 3756
ABN: 32 119 493 113

www.bendigobank.com.au
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