

Redlands Community
Financial Services Limited

ABN 52 116 190 875

annual report 2011



Victoria Point **Community Bank**[®] Branch

Contents

Chairman's report	2-4
Manager's report	5
Directors' report	6-10
Auditor's independence declaration	11
Financial statements	12-15
Notes to the financial statements	16-37
Directors' declaration	38
Independent audit report	39-40
BSX report	41-42

Chairman's report

For year ending 30 June 2011

Redlands Community Financial Services Ltd acknowledges, recognises and respects the cultural rights and responsibilities of the Quandamooka people as the region's 'traditional' owners.

Dear shareholders,

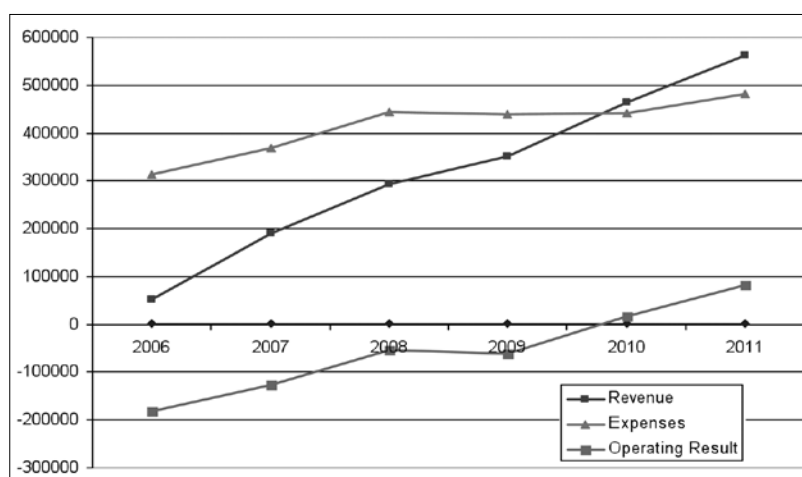
It is once again an honour to present a brief statement of branch and business performance on behalf of the Board.

Firstly I want to address the concerns some shareholders have raised. I do not discount expressions of disappointment that dividends are yet to be paid. I recognise and accept frustrations expressed when you call and discover we cannot sell shares on your behalf and that the business cannot refund money paid for shares. I hope each phone call has resulted in improved knowledge of legal and commercial processes in regards to shares. On balance there must be recognition of our performance in a significantly tough financial climate. We are a small business of two full time staff and three part time staff. In a period where 20% of small businesses in Queensland declared bankruptcy during the 2010/2011 financial year; when the media is full of reports on the two-speed economy where small business is suffering; we have exceeded budget, strengthened our position in the business community and community at-large and, have been recognised by peer branches, staff and Bendigo and Adelaide Bank Ltd itself as high achievers.

With global financial markets fluctuating resulting in unheralded nervousness, our priorities for the next 12 months are paramount to stability, strength and success. Our first priority is to honour those who created the opportunity for a **Community Bank**[®] branch; our shareholders. We are working to protect the business and develop a sound income in good times and bad. Best practice and events such as the Global Financial Crisis demand we ensure debt reduction and work toward both active and passive income to defend against what has affected us all over the last two or three years.

Business performance

I could discuss our business performance in modern terms by using phrases like "headwinds", "corporate posts", "turbulence" etc. Instead I refer you to the chart below. Revenue after the first three years began to taper and in 2010 and 2011 rose sharply, while expenses remained stable. We have worked harder, improved our own output and subsequent income and while doing so, managed to keep our expenses over the last four years almost level.



Chairman's report continued

Our results are sound given; effective 1 April 2011, the Profit Share arrangement with Bendigo and Adelaide Bank Ltd changed. Income sharing from certain types of loans and deposits was reduced which affected the 'bottom line'.

The net margin between income from deposits and the cost to borrow funds has reduced to well below 1%. Without going in to depth with a complex area of finance, it is enough to say the greater our deposits the better we can buffer the cost of funds. The most successful **Community Bank®** model is one where the shareholders champion the cause and use the bank and to have an additional 300 customers would accelerate our growth and help defend against the margin 'squeeze'.

Our audit results both from a Company and operational branch perspective are sound and against a basic risk profile are reassuring. Further; we have significantly increased our customer base and whilst doing so, we have increased our products per customer. This is difficult to do, something we use as a core measure of performance and is a source of pride.

Marketing

Through 2011 we re-established a dedicated marketing sub-committee and welcomed David McGovern as a non-Director to lead our marketing. This aligns perfectly with our second priority; to increase visibility of our branch and our business. The 'traction' David has achieved in a few short months, and the assistance provided to Justine is amazing. I am confident this will soon be evident in our business performance.

Milestones

We celebrated our 5th birthday in December 2010 and at the same time renewed the franchise agreement; effective 15 December 2010. On 29 August 2011; as a result of the robbery in April 2009, renovations and a security upgrade were completed. We celebrated five of 12 "Branch of the Month" awards and on 30 August were awarded "Branch of the Year" for our region. The Branch of the Year award is a significant, well regarded by our peers and this marks two in a row for Victoria Point. Performing consistently, patiently and diligently is difficult over 12 months let alone 24 months. Our staff are quite rightly proud and pleased with their performance.

Of course this pales into insignificance when I recognise the effort, ability and exceptional performance of Justine. Our second Branch of the Year award is Justine's fifth in a row!

Board

Board members are;

Chairman – Garry White

Secretary – Fred Powers

Vice Chairman – Ann Reed

Director – Arnal Chand (from November 2010)

Director – Merijn de Kruijf (from August 2010)

Director – Kelly-Jade Sandes (from September 2011)

Arnal has been with us since 2009 as an "Observer Director". Whilst with us Arnal achieved a number of personal milestones, including the year 12 DUX at Victoria Point State High School. Soon after Arnal turned 18, the Board asked if he would formally join us as a Director. Arnal is an excellent role model and makes a valuable contribution to the community and our Board.

Chairman's report continued

Community

Nearly \$100,000 has been distributed in the Redlands since September 2008. Using the marketing fund received from Bendigo and Adelaide Bank Ltd we support scholarships, workshops, mentoring, forums, trophy presentations, school P&C and school buses, cultural activities, sporting groups, hobby groups, community organisations, choirs, fundraisers and individual hardship cases as well. Investment in 'community' was the key to the successful growth evidenced through 2009 to 2011. We anticipate over the next 12 months investing a further \$49,995 to help community organisations work toward becoming self sufficient; so they don't have to continually rely on family, members, raffles, sausage sizzles and parents for basic funds.

Key priorities

Our key priorities as a collective are;

- Honour initial shareholder investment by building a sound financial base
- Improve visibility of the branch, brand, our 'differences' and strengths through marketing initiatives and in partnership with community organisations
- Expand our base toward the end of the 2011/2012 year, by adding an agency, sub branch or branch in the North of Redland City.

In summary

I have proudly represented Victoria Point **Community Bank**[®] Branch for nearly five years. I say that not to note myself. Over that time I have seen a generational change and a maturing of an important asset in and for Redland City. We have the honour and pleasure to have a fantastic Branch Manager, Justine; whose energy and dedication is obvious in everything we have achieved. We are on the leading edge in terms of modern and relevant marketing initiatives. We have an informed and broadly experienced Board and a positive budget outlook.

The Board and branch staff recognise the privilege bestowed on us to serve you, serve the community and lead a small business that is becoming increasingly valued and relied upon by the greater Redlands population.

Fellow shareholders; I ask you to take any and every opportunity to champion the cause of Victoria Point **Community Bank**[®] Branch; and where possible please bank with us too.

Yours faithfully,



Garry White
Chairman

Manager's report

For year ending 30 June 2011

I am pleased to provide my second annual report as Manager of Victoria Point **Community Bank**[®] Branch. From my perspective June 2011 marks the end of another fantastic year. It's nice to reflect on the people that have made this year a great success. Our branch will always be about people; and not just those on the customer side of the counter. We have incredible staff that are always ready to go the 'extra mile' to help our customers and our communities:

- Jane Nelson has been our seamstress, audit guru and accounts queen;
- Karen Woolan has been our chef, IT consultant and events manager;
- Karen Gold has been our constant; our ever smiling and selling champion; and
- Michele has been our big ideas person, our teacher of humour and our champion of learning.

From the 'other' side of the counter it is easily seen that our staff go the extra mile to help, such as helping out at BBQ's, dropping documents off to customers who are unable to take time off work, talking to community groups about the important role they play in our community and how we would like to help them continue that role, organising fundraising nights or dressing up in tutus or pyjamas to help raise money a local group in our community. This has all been done willingly, in their own time with fantastic support from our families. I find it rewarding to work with people that really understand what working for a **Community Bank**[®] branch is about.

To lead such a team doesn't feel like work at all, I just provide a space for individuals to blossom on both sides of the counter.

A few highlights in 2010/2011:

- Exceeded deposit budget
- Exceeded branch lending budget
- Smashed our financial planning budget
- Made well over our profit budget
- Smashed our insurance budget
- Exceeded our merchant facility budget
- Went from \$44 million to just under \$54 million in footings
- Won 5 out of 12 branch of the month awards
- Won branch of the month for the regions in January (1st out of 52 branches)
- Won Branch of the year for our Region; that is two in a row
- Won Queensland Bendigo Bank Insurance "Lost" Campaign
- We have more than 300 new customers
- We have approved just under \$14 million in loans (80 applications)
- Farewelled an old staff member and welcomed a new one



Justine Kennedy
Branch 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:

Garry Francis White

Chairman

Age: 51

Air Traffic Service Officer with Airservices Australia
22 years with Redlands Netball Association and other community groups in senior leadership roles including the office of President & Treasurer.

Special responsibilities: Chairman; HR & Business Development sub-committees.

Interest in shares: 10,000

Frederick James Powers

Secretary/Treasurer

Age: 65

Accountant

Qualified accountant with his own accountancy practice for over 23 years.

Special responsibilities: Company Secretary, Treasurer; HR committee.

Interest in shares: Nil

Ann Constance Reed

Director

Age: 62

Company Director

Ann has a business background, and currently volunteers as an ESL tutor. Ann has volunteered for the Australian Red Cross, Girls Guides, Lions Club, and various community programs. She has held numerous roles including President, Secretary, and Treasurer, during her volunteer work.

Special responsibilities: HR and Marketing committees.

Interest in shares: Nil

Arnal Pravikash Chand

Director (Appointed 20 September 2010)

Age: 18

University Student

Arnal was the Victoria Point High School DUX in 2009, volunteers as a tutor and electoral volunteer and is studying Law and Business at University.

Special responsibilities: Marketing sub-committee.

Interest in shares: Nil

Directors' report continued

Directors (continued)

Merijn Leonardus Cornelis de Kruijf

Director (Appointed 23 August 2010)

Age: 27

Merijn owned/managed small I.T. company; in his 3rd year at Griffith University completing a bachelor degree in Commerce, majoring in finance and economics. Vice president/founder of Griffith Finance Society; employed part time role as a Business Banking Assistant with Bendigo Bank; has a passion for banking; is particularly focused on quality and community focused services from the banking sector.

Special responsibilities: Marketing committee.

Interest in shares: Nil

Donald Neil Reed

Director (Resigned 16 August 2010)

Age: 69

Self Employed Business Manager

Don has a broad range of business skills, including business management and sales. Don created and now manages a successful local business; monitoring and communications services within the transport industry. Don has volunteered for the Australian Red Cross, and lives in Victoria Point
Special responsibilities: HR & Marketing committees.

Interest in shares: Nil

John James Goodwin

Director (Resigned 25 November 2010)

Age: 49

Bank Manager

John is a 'mobile' bank manager for Bendigo Bank with a broad range of experience, including excellent marketing skills. John lives in Victoria Point and volunteers within local community organisations; for example Sharks Cricket Club.

Special responsibilities: Marketing sub-committee.

Interest in shares: Nil

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 role was held by Frederick James Powers who has held the role since 26 February 2009. Fred was the principal of Redlands Taxation Services accountancy firm for over 22 years until his recent retirement. He also holds formal Company Secretary qualifications.

Principal Activities

The principal activities of the company during the course of the financial year were in facilitating **Community Bank**[®] services under management rights to operate a franchised branch of Bendigo and Adelaide Bank Limited.

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

Directors' report continued

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 \$
	57,057	17,729

Remuneration Report

There are no employees who are directly accountable and have responsibility for the strategic direction and operational management of the entity.

There are therefore no specified Executives whose remuneration requires disclosure.

Dividends

No dividends were declared or paid for the previous year and the directors recommend that no dividend be paid for the current year.

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 27th of August 2011 the Company undertook an upgrade to the security equipment within the Branch premises, this included jump screens and CCTV systems. The Company has funded this Branch upgrade through a debt facility with Bendigo & Adelaide Bank. This will affect the profits on an ongoing basis, with annual interest and additional depreciation costs estimated to amount to \$18,000 in the 2011/12 year. In addition, a one off (non cash) write off of approximately \$26,000 of existing fittings & equipment will further impact upon our profits.

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 of which a director is a member or an entity in which a director has a substantial financial interest.

Directors' report continued

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 Eligible	Board Meetings Attended
Garry Francis White	11	11
Frederick James Powers	11	9
Ann Constance Reed	11	8
Arnal Pravikash Chand (Appointed 20 September 20010)	9	7
Merijn Leonardus Cornelis de Kruijf (Appointed 23 August 2010)	10	9
Donald Neil Reed (Resigned 16 August 2010)	1	1
John James Goodwin (Resigned 25 November 2010)	5	3

The board has three other sub-committees for Human Resources, Business Development and Marketing. The sub-committees met on an informal and as needed basis during the financial year and report to the Board meetings as required.

Non Audit Services

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

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

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

- all non-audit services have been reviewed by the audit committee to ensure they do not impact on the impartiality and objectivity of the auditor;

Directors' report continued

Non Audit Services (continued)

- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

Auditors' Independence Declaration

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

Signed in accordance with a resolution of the board of directors at Redlands, Queensland on 7 September 2011.



Garry Francis White, Chairman

Auditor's independence declaration



Lead Auditor's Independence Declaration under section 307C of the Corporations Act 2001 to the directors of Redlands Community 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.

A handwritten signature in black ink, appearing to read 'Graeme Stewart', is written over a horizontal line.

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

7th September 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	588,518	464,979
Employee benefits expense		(306,007)	(257,922)
Charitable donations, sponsorship, advertising and promotion		(38,923)	(18,882)
Occupancy and associated costs		(42,893)	(40,542)
Systems costs		(16,858)	(19,204)
Depreciation and amortisation expense	5	(15,028)	(9,909)
Finance costs	5	(1,003)	(4,652)
General administration expenses		(82,400)	(90,976)
Profit before income tax expense		85,406	22,892
Income tax expense	6	(28,349)	(5,163)
Profit after income tax expense		57,057	17,729
Total comprehensive income for the year		57,057	17,729
Earnings per share (cents per share)		c	c
- basic for profit for the year	22	8.40	2.61

The accompanying notes form part of these financial statements.

Financial statements continued

Balance Sheet as at 30 June 2011

	Note	2011 \$	2010 \$
ASSETS			
Current Assets			
Cash and cash equivalents	7	66,282	-
Trade and other receivables	8	20,134	25,153
Total Current Assets		86,416	25,153
Non-Current Assets			
Property, plant and equipment	9	80,179	83,983
Intangible assets	10	61,872	1,000
Deferred tax assets	11	151,317	179,666
Total Non-Current Assets		293,368	264,649
Total Assets		379,784	289,802
LIABILITIES			
Current Liabilities			
Trade and other payables	12	15,630	25,771
Borrowings	13	18,384	21,613
Provisions	14	5,584	6,195
Total Current Liabilities		39,598	53,579
Non-Current Liabilities			
Provisions	14	1,274	664
Borrowings	13	46,296	-
Total Non-Current Liabilities		47,570	664
Total Liabilities		87,168	54,243
Net Assets		292,616	235,559
Equity			
Issued capital	15	642,560	642,560
Accumulated losses	16	(349,944)	(407,001)
Total Equity		292,616	235,559

The accompanying notes form part of these financial statements.

Financial statements continued

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

	Issued Capital \$	Retained Earnings \$	Total Equity \$
Balance at 1 July 2009	642,560	(424,730)	217,830
Total comprehensive income for the year	-	17,729	17,729
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	-	-
Balance at 30 June 2010	642,560	(407,001)	235,559
Balance at 1 July 2010	642,560	(407,001)	235,559
Total comprehensive income for the year	-	57,057	57,057
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	-	-
Balance at 30 June 2011	642,560	(349,944)	292,616

The accompanying notes form part of these financial statements.

Financial statements continued

Statement of Cashflows for the Year Ended 30 June 2011

	Note	2011 \$	2010 \$
Cash Flows From Operating Activities			
Receipts from customers		584,566	444,716
Payments to suppliers and employees		(488,762)	(414,226)
Interest received		510	-
Interest paid		(1,003)	(4,652)
Net cash provided by operating activities	17	95,311	25,838
Cash Flows From Investing Activities			
Payments for property, plant and equipment		(2,673)	(885)
Payments for intangible assets		(69,423)	-
Net cash used in investing activities		(72,096)	(885)
Cash Flows From Financing Activities			
Proceeds from borrowing		170,000	-
Repayment from borrowing		(105,320)	-
Net cash provided by financing activities		64,680	-
Net increase in cash held		87,895	24,953
Cash and cash equivalents at the beginning of the financial year		(21,613)	(46,566)
Cash and cash equivalents at the end of the financial year	7(a)	66,282	(21,613)

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.

Compliance with IFRS

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

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.

Financial statement presentation

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.

Historical cost convention

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

Comparative figures

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

Adoption of new and revised Accounting Standards

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.

Notes to the financial statements continued

Note 1. Summary of Significant Accounting Policies (continued)

a) Basis of Preparation (continued)

Adoption of new and revised Accounting Standards (continued)

- AASB 101 Presentation of Financial Statements

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

- Disclosure impact

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

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

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

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

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

New Accounting Standards for application in future periods

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

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

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

Notes to the financial statements continued

Note 1. Summary of Significant Accounting Policies (continued)

a) Basis of Preparation (continued)

Economic dependency - Bendigo and Adelaide Bank Limited

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

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).

Notes to the financial statements continued

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 been exercised on several occasions previously. For example in February 2011 Bendigo and Adelaide Bank Limited reduced commissions on two core banking products to ensure a more even distribution of income between Bendigo and Adelaide Bank Limited and its **Community Bank**[®] partners. The revenue share model is subject to regular review to ensure that the interests of Bendigo and Adelaide Bank Limited and **Community Bank**[®] companies remain balanced.

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

c) Income Tax

Current tax

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

Deferred tax

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

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

Notes to the financial statements continued

Note 1. Summary of Significant Accounting Policies (continued)

c) Income Tax (continued)

Deferred tax (continued)

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

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

Current and deferred tax for the period

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

d) Employee Entitlements

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

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

e) Cash and Cash Equivalents

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

f) Trade Receivables and Payables

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

g) Property, Plant and Equipment

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

Notes to the financial statements continued

Note 1. Summary of Significant Accounting Policies (continued)

g) Property, Plant and Equipment (continued)

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

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

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

h) Intangibles

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

i) Payment Terms

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

j) Borrowings

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

k) Financial Instruments

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.

Notes to the financial statements continued

Note 1. Summary of Significant Accounting Policies (continued)

k) Financial Instruments (continued)

Classification and subsequent measurement (continued)

(ii) Held-to-maturity investments

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

(iii) Financial liabilities

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

Impairment

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

l) Leases

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

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

m) Provisions

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

Notes to the financial statements continued

Note 1. Summary of Significant Accounting Policies (continued)

o) Earnings Per Share

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

p) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis.

The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Note 2. Financial Risk Management

The company's activities expose it to a limited variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the entity. The entity does not use derivative instruments.

Risk management is carried out directly by the board of directors.

(i) Market risk

The company has no exposure to any transactions denominated in a currency other than Australian dollars.

(ii) Price risk

The company is not exposed to equity securities price risk as it does not hold investments for sale or at fair value. The company is not exposed to commodity price risk.

(iii) Credit risk

The company has no significant concentrations of credit risk. It has policies in place to ensure that customers have an appropriate credit history. The company's franchise agreement limits the company's credit exposure to one financial institution, being Bendigo and Adelaide Bank Limited.

(iv) Liquidity risk

Prudent liquidity management implies maintaining sufficient cash and marketable securities and the availability of funding from credit facilities. The company believes that its sound relationship with Bendigo and Adelaide Bank Limited mitigates this risk significantly.

Notes to the financial statements continued

Note 2. Financial Risk Management (continued)

(v) Cash flow and fair value interest rate risk

Interest-bearing assets are held with Bendigo and Adelaide Bank Limited and subject to movements in market interest. Interest-rate risk could also arise from long-term borrowings. Borrowings issued at variable rates expose the company to cash flow interest-rate risk. The company believes that its sound relationship with Bendigo and Adelaide Bank Limited mitigates this risk significantly.

(vi) Capital management

The board's policy is to maintain a strong capital base so as to sustain future development of the company. The board of directors monitor the return on capital and the level of dividends to shareholders. Capital is represented by total equity as recorded in the balance sheet.

In accordance with the franchise agreement, in any 12 month period, the funds distributed to shareholders shall not exceed the distribution limit.

- (i) the distribution limit is the greater of:
 - (a) 20% of the profit or funds of the franchisee otherwise available for distribution to shareholders in that 12 month period; and
 - (b) subject to the availability of distributable profits, the relevant rate of return multiplied by the average level of share capital of the franchisee over that 12 month period; and
- (ii) the relevant rate of return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period plus 5%.

The board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the year ended 30 June 2011 can be seen in the statement of comprehensive income.

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

Note 3. Critical Accounting Estimates and Judgements

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

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

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

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

Notes to the financial statements continued

Note 3. Critical Accounting Estimates and Judgements (continued)

Taxation

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

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

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

Estimation of useful lives of assets

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

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net identifiable assets of the acquired branch/agency at the date of acquisition. Goodwill on acquisition is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

The calculations require the use of assumptions.

Impairment of assets

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

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

Notes to the financial statements continued

Note 3. Critical Accounting Estimates and Judgements (continued)

Impairment of assets (continued)

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

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

	2011	2010
	\$	\$

Note 4. Revenue from Ordinary Activities

Operating activities:

- services commissions	557,400	454,922
- other revenue	30,440	10,057
Total revenue from operating activities	587,840	464,979

Non-operating activities:

- interest received	678	-
Total revenue from non-operating activities	678	-
Total revenues from ordinary activities	588,518	464,979

Note 5. Expenses

Depreciation of non-current assets:

- plant and equipment	2,163	2,189
- leasehold improvements	293	308
- furniture & fittings	3,204	4,682
- computer software	87	-
- leasehold improvements	730	730

Notes to the financial statements continued

	Note	2011 \$	2010 \$
Note 5. Expenses (continued)			
Amortisation of non-current assets:			
- franchise agreement		2,258	2,000
- franchise renewal		6,293	-
		15,028	9,909
Finance costs:			
- interest paid		1,003	4,652
Bad debts		671	4,805

Note 6. Income Tax Expense

The components of tax expense comprise:

- Current tax		-	-
- Future income tax benefit attributed to losses		-	-
- Movement in deferred tax		50	979
- Recoup of prior year tax loss		28,032	4,185
- Under/(Over) provision of tax in the prior period		267	(1)
		28,349	5,163

The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:

Operating profit		85,406	22,892
Prima facie tax on profit from ordinary activities at 30%		25,622	6,769
Add tax effect of:			
- non-deductible expenses		2,565	600
- timing difference expenses		(50)	(979)
- other deductible expenses		(105)	(2,205)
		28,032	4,185
Movement in deferred tax	11	50	979
Under/(Over) provision of income tax in the prior year		267	(1)
		28,349	5,163

Notes to the financial statements continued

	Note	2011 \$	2010 \$
Note 7. Cash and Cash Equivalents			
Cash at bank and on hand		66,282	-
		66,282	-

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		66,282	-
Bank overdraft	13	-	(21,613)
		66,282	(21,613)

Note 8. Trade and Other Receivables

Trade receivables		16,412	21,977
Prepayments		3,722	3,176
		20,134	25,153

Note 9. Property, Plant and Equipment

Plant and equipment - Victoria Point

At cost		35,725	33,336
Less accumulated depreciation		(14,661)	(12,498)
		21,064	20,838

Plant and equipment - Macleay Island

At cost		7,692	7,692
Less accumulated depreciation		(1,501)	(1,208)
		6,191	6,484

Furniture & fittings

At cost		54,279	54,279
Less accumulated depreciation		(26,755)	(23,551)
		27,524	30,728

Notes to the financial statements continued

	2011 \$	2010 \$
Note 9. Property, Plant and Equipment (continued)		
Computer software		
At cost	13,661	13,377
Less accumulated depreciation	(13,464)	(13,377)
	197	-
Leasehold improvements		
At cost	29,217	29,217
Less accumulated depreciation	(4,014)	(3,284)
	25,203	25,933
Total written down amount	80,179	83,983
Movements in carrying amounts:		
Plant and equipment - Victoria Point		
Carrying amount at beginning	20,838	22,143
Additions	2,389	884
Disposals	-	-
Less: depreciation expense	(2,163)	(2,189)
Carrying amount at end	21,064	20,838
Plant and equipment - Macleay Island		
Carrying amount at beginning	6,484	6,792
Additions	-	-
Disposals	-	-
Less: depreciation expense	(293)	(308)
Carrying amount at end	6,191	6,484
Furniture & fittings		
Carrying amount at beginning	30,728	35,410
Additions	-	-
Disposals	-	-
Less: depreciation expense	(3,204)	(4,682)
Carrying amount at end	27,524	30,728

Notes to the financial statements continued

	2011 \$	2010 \$
Note 9. Property, Plant and Equipment (continued)		
Computer software		
Carrying amount at beginning	-	-
Additions	284	-
Disposals	-	-
Less: depreciation expense	(87)	-
Carrying amount at end	197	-
Leasehold improvements		
Carrying amount at beginning	25,933	26,663
Additions	-	-
Disposals	-	-
Less: depreciation expense	(730)	(730)
Carrying amount at end	25,203	25,933
Total written down amount	80,179	83,983

Note 10. Intangible Assets

Franchise fee		
At cost	21,570	10,000
Less: accumulated amortisation	(11,258)	(9,000)
	10,312	1,000
Renewal processing fee		
At cost	57,853	-
Less: accumulated amortisation	(6,293)	-
	51,560	-
Total written down amount	61,872	1,000

Notes to the financial statements continued

	2011 \$	2010 \$
Note 11. Tax		
Deferred tax assets		
- accruals	990	-
- employee provisions	2,057	2,058
- tax losses carried forward	148,320	177,608
	151,367	179,666
Deferred tax liability		
- accruals	50	-
- deductible prepayments	-	-
	50	-
Net deferred tax asset	151,317	179,666
Movement in deferred tax charged to statement of comprehensive income	50	979

Note 12. Trade and Other Payables

Trade creditors	11,253	22,245
Other creditors and accruals	4,377	3,526
	15,630	25,771

Note 13. Borrowings

Current:

Bank overdrafts	-	21,613
Bank loans	18,384	-
	18,384	21,613

Non-Current:

Bank loans	46,296	-
	46,296	-

Bank loans are repayable monthly with the final instalment due in 2015. Interest is recognised at an average rate of 7.04% prevailing from time to time. The loan is secured by a fixed and floating charge over the company's assets.

The bank overdraft was paid off during the period, while an approved overdraft limit for \$80,000 still remains. The bank overdraft is secured by a Registered First Company Debenture Mortgage from Redlands Community Financial Services Limited.

Notes to the financial statements continued

	2011 \$	2010 \$
Note 14. Provisions		
Current:		
Provision for annual leave	5,584	6,195
Non-Current:		
Provision for long service leave	1,274	664
Number of employees at year end	2	2

Note 15. Contributed Equity

679,310 Ordinary shares fully paid (2010: 679,310)	679,310	679,310
Less: equity raising expenses	(36,750)	(36,750)
	642,560	642,560

Rights attached to shares

(a) Voting rights

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

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

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

(b) Dividends

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

Notes to the financial statements continued

Note 15. Contributed Equity (continued)

Rights attached to shares (continued)

(c) Transfer

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

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

Prohibited shareholding interest

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

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

- They control or own 10% or more of the shares in the company (the "10% limit").
- In the opinion of the board they do not have a close connection to the community or communities in which the company predominantly carries on business (the "close connection test").
- Where the person is a shareholder, after the transfer of shares in the company to that person the number of shareholders in the company is (or would be) lower than the base number (the "base number test"). The base number is 266. As at the date of this report, the company had 314 shareholders.

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

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

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

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

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

Notes to the financial statements continued

	2011 \$	2010 \$
Note 16. Accumulated Losses		
Balance at the beginning of the financial year	(407,001)	(424,730)
Net profit from ordinary activities after income tax	57,057	17,729
Balance at the end of the financial year	(349,944)	(407,001)

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	57,057	17,729
Non cash items:		
- depreciation	6,477	7,909
- amortisation	8,551	2,000
Changes in assets and liabilities:		
- (increase)/decrease in receivables	5,019	(8,616)
- decrease in other assets	28,349	5,164
- increase/(decrease) in payables	(10,141)	1,616
- increase/(decrease) in provisions	(1)	36
Net cashflows provided by operating activities	95,311	25,838

Note 18. Leases

Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

Payable - minimum lease payments		
- not later than 12 months	35,068	12,843
- between 12 months and 5 years	119,815	-
- greater than 5 years	-	-
	154,883	12,843

The branch premises lease is a non-cancellable lease with a five-year term. The first renewal of the lease was taken on the 1 December 2010, with one remaining renewal option of a 5 year term remaining. Rent is payable monthly in advance and is increased annually by CPI.

Notes to the financial statements continued

	2011	2010
	\$	\$
Note 19. Auditors' Remuneration		
Amounts received or due and receivable by the auditor of the company for:		
- audit and review services	4,500	4,500
- non audit services	1,956	2,035
	6,456	6,535

Note 20. Director and Related Party Disclosures

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

Garry Francis White
Frederick James Powers
Ann Constance Reed
Arnal Pravikash Chand (Appointed 20 September 20010)
Merijn Leonardus Cornelis de Kruijf (Appointed 23 August 2010)
Donald Neil Reed (Resigned 16 August 2010)
John James Goodwin (Resigned 25 November 2010)

No director or related entity has entered into a material contract with the company. No director's fees have been paid as the positions are held on a voluntary basis.

Directors Shareholdings	2011	2010
Garry Francis White	10,000	10,000
Frederick James Powers	-	-
Ann Constance Reed	-	-
Arnal Pravikash Chand (Appointed 20 September 20010)	-	-
Merijn Leonardus Cornelis de Kruijf (Appointed 23 August 2010)	-	-
Donald Neil Reed (Resigned 16 August 2010)	-	-
John James Goodwin (Resigned 25 November 2010)	-	-

There was no movement in directors shareholdings during the year.

Note 21. Key Management Personnel Disclosures

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

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

Notes to the financial statements continued

	2011 \$	2010 \$
Note 22. Earnings Per Share		
(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	57,057	17,729
	Number	Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	679,310	679,310

Note 23. Events Occurring After the Balance Sheet Date

On the 27th of August 2011 the Company undertook an upgrade to the security equipment within the Branch premises, this included jump screens and CCTV systems. The Company has funded this Branch upgrade through a debt facility with Bendigo & Adelaide Bank. This will affect the profits on an ongoing basis, with annual interest and additional depreciation costs estimated to amount to \$18,000 in the 2011/12 year. In addition, a one off (non cash) write off of approximately \$26,000 of existing fittings & equipment will further impact upon our profits.

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

Note 24. Contingent Liabilities

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

Note 25. Segment Reporting

The economic entity operates in the service sector where it facilitates **Community Bank**[®] services in Victoria Point, Queensland pursuant to a franchise agreement with Bendigo and Adelaide Bank Limited.

Note 26. Registered Office/Principal Place of Business

The registered office and principal place of business is:

Registered Office	Principal Place of Business
Suite 39/Level 1 Bay Village Shopping Centre	Shop 5/127 Colburn Avenue
133 Broadwater Terrace	Victoria Point QLD 4163
Redland Bay QLD 4165	

Notes to the financial statements continued

Note 27. Financial Instruments

Net Fair Values

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

Credit Risk

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

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

Interest Rate Risk

Financial instrument	Floating interest rate		Fixed interest rate maturing in						Non interest bearing		Weighted average effective interest rate	
			1 year or less		Over 1 to 5 years		Over 5 years					
	2011 \$	2010 \$	2011 \$	2010 \$	2011 \$	2010 \$	2011 \$	2010 \$	2011 \$	2010 \$	2011 %	2010 %
Financial Assets												
Cash and cash equivalents	46,108	-	20,175	-	-	-	-	-	-	-	3.01	N/A
Receivables	-	-	-	-	-	-	-	-	20,134	25,153	N/A	N/A
Financial Liabilities												
Interest bearing liabilities	64,680	21,613	-	-	-	-	-	-	-	-	1.56	10.20
Payables	-	-	-	-	-	-	-	-	22,488	25,771	N/A	N/A

Directors' declaration

In accordance with a resolution of the directors of Redlands Community 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.



Garry Francis White, Chairman

Signed on the 7th of September 2011.

Independent audit report



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

Report on the Financial Report

We have audited the accompanying financial report of Redlands Community 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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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. 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:

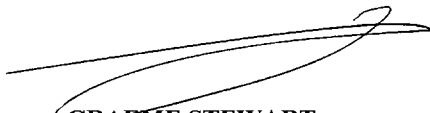
- 1) The financial report of Redlands Community Financial Services Limited is in accordance with the Corporations Act 2001 including giving a true and fair view of the company's financial position as at 30 June 2011 and of its financial performance and its cash flows for the year then ended and complying 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 Redlands Community Financial Services Limited for the year ended 30 June 2011, complies with section 300A of the Corporations Act 2001.



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

7th September 2011

BSX report

Share information

In accordance with Bendigo Stock Exchange listing rules the Company provides the following information as at 30 September 2011, which is within 6 weeks of this report being sent to shareholders.

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

Number of shares held	Number of shareholders
1 to 1,000	205
1,001 to 5,000	89
5,001 to 10,000	15
10,001 to 100,000	5
100,001 and over	0
Total shareholders	314

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

There are no substantial shareholders (holding more than 5% of voting rights) as each shareholder is entitled to 1 vote. Normally holding more than 5% of total issued shares would create a substantial shareholder, but this is not applicable due to the voting restrictions for the Company.

There are 22 shareholders holding less than a marketable parcel of shares (\$500 in value).

There are no restricted securities on issue.

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

The following table shows the 10 largest shareholdings.

Shareholder	Number of shares	Percentage of capital
Arthur Erry	50,000	7.36
Constatine Efstathis	25,000	3.68
Stathis Efstathis	20,500	3.02
Monika Hunt	20,000	2.94
Parker Chisolm Super Fund	20,000	2.94
Beaver Group Holdings Pty Ltd	10,000	1.47
Keith Berwick	10,000	1.47
Mark Johnson	10,000	1.47
Catherine Bishop	10,000	1.47
Edith Campbell	10,000	1.47
	185,500	27

BSX report continued

Registered office and principal administrative office

The registered office of the Company is located at:

Suite 39/Level 1 Bay Village Shopping Centre
133 Broadwater Terrace
Redland Bay QLD 4165

The principal administrative office of the Company is located at:

Suite 39/Level 1 Bay Village Shopping Centre
133 Broadwater Terrace
Redland Bay QLD 4165

Security register

The security register (share register) is kept at:

52 Angove park Drive
Tea Tree Gully SA 5091
Phone: 08 8395 2308

Company Secretary

Fred Powers has been the Company Secretary of Redlands Community Financial Services Ltd since February 2009. Fred is a qualified accountant with his own accountancy practice for over 22 years.

The Company has implemented various corporate governance practices, which include:

- (a) The establishment of an audit committee. Members of the audit committee are Garry White
- (b) Director approval of operating budgets and monitoring of progress against these budgets;
- (c) Ongoing Director training; and
- (d) Monthly Director meetings to discuss performance and strategic plans.

Annexure 3A

There are no material differences between the information in the Company's Annexure 3A and the information in the financial documents in its annual report.



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Bendigo and Adelaide Bank Limited,
The Bendigo Centre, Bendigo VIC 3550
ABN 11 068 049 178. AFSL 237879.
(BMPAR11091) (09/11)