



Annual Report 2014

Rye & District Community
Financial Services Limited

ABN 67 095 766 895

Rye & District **Community Bank**[®] Branch
Dromana **Community Bank**[®] Branch
Rosebud **Community Bank**[®] Branch

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Chairman's report

For year ending 30 June 2014

In previous years, I have declared that the difficult trading conditions being experienced by small business were becoming the 'new norm', with companies being required to adapt to changing business conditions, uncertain consumer sentiment and a new economic environment.

Never was this declaration more accurate than in the financial year under review, ending 30 June 2014.

The increased costs associated with the opening of our Rosebud **Community Bank**[®] Branch in October 2013 as well as a full year's impact of the Bendigo and Adelaide Bank's "Restoring The Balance II" Program, had significant impacts on both our revenues and our costs, and ultimately on our year-end profit.

Our annual expense budget allowed for an increase of \$350,000 to accommodate the extra costs involved with the operation of our Rosebud **Community Bank**[®] Branch but tight financial management and cost control by our management team saw an overall expenditure increase of \$341,824 over 2013/14.

The real impact on our yearly profit, though, was the accommodation of a full year of changed revenue sharing with our partner, Bendigo and Adelaide Bank, under the second phase of its "Restoring the Balance" program which came into operation in April 2013.

Whilst the implementation of this model was necessary to correct an imbalance in revenue share to the advantage of **Community Bank**[®] branches after the global financial crisis, its impact, nonetheless had significant impact on our profitability.

So, despite the total footings (loans, deposits and financial planning products) of our company rising from \$427.6 million in 2013 to \$468.5 million in 2014 and despite an over budget achievement of some \$41 million, our revenue for the year actually fell by \$83,000 – due entirely to the revised revenue sharing model implanted by Bendigo and Adelaide Bank. It has been estimated that the revenue impact of the new model has been an adverse \$190,000, year on year.

The double hit of extra costs (mainly associated with the Rosebud **Community Bank**[®] Branch operation) and reduced revenue has resulted in an after tax profit for the year of \$309,000 compared with \$611,000 last year.

Accordingly, our dividend for the year has been declared at 6.0 cents per share, fully franked, with a record date of 31 October 2014 and a payment date of 28 November 2014.

Whilst this dividend is lower than our record dividend of 2013 (7.75 cents per share), it has been achieved under extremely challenging conditions and your Board is proud of the company's ability to maintain its unbroken record of dividend payments since 2003.

Your Board is also proud of the ability of the company to provide grants, sponsorships and donations during the year to the value of \$494,875 to 134 community groups and organisations, taking the total of its community contributions to over \$5.5 million since inception. This is an outstanding feature of the **Community Bank**[®] model and the total community return of your company puts it at the forefront of **Community Bank**[®] organisations throughout Australia.

These results have been achieved through the efforts of our dedicated team of Managers and staff members whose commitment to the company and to the **Community Bank**[®] principles is admirable. We are grateful for the leadership and drive of our Senior Manager, Gary Sanford and to the customer service delivery of Julie Nolo, Manager of the Rosebud **Community Bank**[®] Branch and Bronwyn Ralph at Rye. To these Managers and all of their staff, we say a resounding 'thank you'.

Chairman's report (continued)

I am also grateful to my fellow Directors for the support they have provided to me over the year. Their dedication to the task of delivering sound corporate governance on behalf of our shareholders has been commendable and their willingness to act in the best interests of the company, whilst fostering the spirit of community in their decision-making, provides me with great hope for our future.

As part of our succession planning process, I was extremely pleased when Amber Earles accepted our invitation to join the Board and was appointed in February 2014 to fill a casual vacancy. As a younger member of our community and as an expert in her field of 'volunteerism', Amber brings yet another perspective to our Board deliberations and has already and will continue to add, great value to our Board.

Whilst delighted to welcome Amber, it is with sadness that we farewell Eileen Naylor, who will relinquish her role as a Director of our company at the conclusion of the 2014 Annual General Meeting.

Eileen has been a Director since 2003 and has served as Company Secretary from November 2004 until April of this year. Committed to her task and expert in performing it, Eileen has acted as the conscience of our Board and has been of great support to me in my time as Chairman. We will miss her wise counsel, her sage advice, her organisational abilities and her community involvement and thank her for the undoubted contribution she has made to the growth and success of our company.

In the period between April of this year and the time of her resignation, Eileen has been involved in the handover of Company Secretarial duties to another of our Directors, Dorothy Mortlock, who officially assumed the role on 1 April 2014. We thank Dorothy for accepting the role and offer her the support she requires in fulfilling her duties.

On behalf of your Board, I would like to acknowledge the services of our Board Administration Officer, Tony Harford, who oversees the statutory and regulatory obligations of our company and manages the day-to-day relationships with shareholders and regulators. We are indebted to him for his professional approach to his role and for his assistance in fulfilling our administrative responsibilities.

I am also pleased to advise that the development undertaken by the company at 1087-1089 Point Nepean Road, Rosebud and which houses our Rosebud **Community Bank**[®] Branch, has been completed.

In addition to our branch premises, the development includes two residential apartments on the first floor and an additional retail premises on the ground floor.

At the time of preparing this report, a deposit has been received for the sale of one of the apartments with settlement due at the end of October 2014 and the other apartment remains on the market and is available for sale. The additional retail space on the ground floor and adjacent to our branch is currently available for rental. The income derived from these transactions will assist in offsetting the cost of developing the site and allow us to fully own the Rosebud **Community Bank**[®] Branch premises.

We are proud that our policy of using local contractors and tradespeople for this development was implemented so effectively and resulted in such an outstanding addition to the Rosebud precinct streetscape.

Your Board takes seriously its role as guardian of the **Community Bank**[®] model in our community and appreciates the support and guidance it receives from our commercial partner, Bendigo and Adelaide Bank

We are particularly grateful to the Regional Managers, Michelle Mason and Simon Sponza, who have guided and supported us during the year. Simon has recently been appointed to the role and we look forward to working with him closely in the years ahead.

Such has been the growth of the **Community Bank**[®] concept over the 14 years of its operation, (**Community Bank**[®] branches now total 305 – a staggering number considering that our Dromana **Community Bank**[®] Branch was the 200th branch in the network when it opened in 2007), that Bendigo and Adelaide Bank have seen fit to conduct an extensive review of the model, in an attempt to shape it for future growth and operation.

Chairman's report (continued)

Under the banner "Project Horizon", the review commenced in 2013 and its findings, after lengthy consultation with **Community Bank**[®] companies, Bendigo and Adelaide Bank staff, shareholders and stakeholders are due to be delivered in 2015.

Whilst some change to the model is, no doubt, inevitable, your company is committed to ensuring that the interests of shareholders and stakeholders are protected and that our communities will continue to benefit from our investment in this worthwhile social enterprise.

In conclusion, I thank all our shareholders and customers for their ongoing support of our company. Without this support, we would never have been able to grow as we have and never able to provide the community support that now exceeds \$4.5 million.

This is a unique point of difference between our company and other banks and one of which we are extremely proud. I would urge all our shareholders and customers to become vocal advocates of our company and the **Community Bank**[®] model deliverables.

Our next challenge is to attain the magical mark of \$500 million in footings which, given relatively normal trading conditions, is within our reach within the next two years. That's half a billion dollars – an amazing figure and amazing to think that the company is in the shadows of this figure just 13 years into its life.

Your Board has immense belief in the ability and focus of our management team to achieve this result and looks forward to the coming year with confidence.



Shane McCarthy
Chairman

Senior Manager's report

For year ending 30 June 2014

During the 2014 financial year we opened our third **Community Bank**[®] branch at Rosebud on 29 October 2013. In 2010 our decision to open the Rosebud **Community Bank**[®] Branch was as much about growing our business as about providing more convenient service to the existing customers we already had living in the Rosebud area.

I am pleased to say that with the opening of Rosebud **Community Bank**[®] Branch and at our Rye and Dromana **Community Bank**[®] branches, we continued to increase our consolidated customer numbers and grow our footings (deposits and loans).

As at 30 June 2014, we experienced strong growth in deposits, loans and financial planning on a consolidated basis. On opening Rosebud **Community Bank**[®] Branch we experienced several existing customers re-domicile their facilities from Rye and Dromana **Community Bank**[®] branches to the new Rosebud **Community Bank**[®] Branch. The end of year impact on account numbers decreased accounts at Rye **Community Bank**[®] Branch from 9,614 to 9,241, decreased at Dromana **Community Bank**[®] Branch from 5,028 to 4,928. However, Rosebud **Community Bank**[®] Branch accounts grew to 1,019, which meant consolidated growth in new accounts of 546, taking the combined total to 15,188.

Our consolidated footings totalled \$468.51 million, which included total deposits at \$227.17 million and total lending at \$228.80 million. This still represents a very strong mix of business. Reported financial planning products under management at \$12.54 million, assisted to make up the \$468.51 million. These balances reflect a 10.62% increase in deposits and a 7.64% growth in lending across the company. The balances also reflect a 29.43% increase in financial planning products under management over the year.

Rye & District **Community Bank**[®] Branch footings as at 30 June 2014 were \$137.86 million in deposits and \$111.30 million in lending and financial planning under management at \$8.68 million. Combined balances stood at \$257.84 million.

Dromana **Community Bank**[®] Branch footings as at 30 June 2014 were \$65.01 million in deposits and \$87.55 million in lending and financial planning under management at \$3.78 million. Combined balances stood at \$156.34 million.

Rosebud **Community Bank**[®] Branch footings as at 30 June 2014 were \$24.29 million in deposits and \$29.96 million in lending and financial planning under management at \$0.08 million. Combined balances stood at \$54.33 million.

The consolidated business growth of \$40.93 million against consolidated budgeted growth of \$26.52 was a very pleasing result in a very competitive and difficult banking environment. Deposits grew by \$21.82 million against a budget of \$13.06 million, lending grew by \$16.26 million against a budget of \$12.41 million and Financial Planning grew by \$2.85 million against a budget of \$1.05 million.

The 2013/14 growth results are extremely satisfying considering the maturity of the footings at both Rye and Dromana **Community Bank**[®] branches and reflect the benefit of opening our Rosebud **Community Bank**[®] Branch.

Board support

My challenge as Senior Manager of a continually growing business has been made easier by the stability and strength of our Board over a prolonged period.

Shane McCarthy, Chairman leads a strong and decisive team of Directors who have shown respect and trust in me to manage the banking operations of our Group.

Senior Manager's report (continued)

Tony Harford as the Board Administration Officer, not only provides support and guidance to the Board, he is a continual sounding board for me on many issues related to the management of our company. I wish to thank Tony for the invaluable support he provides.

Staff

With the pending opening of the Rosebud **Community Bank**[®] Branch, on 1 July 2013 I moved back into the Branch Managers role, taking over as Dromana's **Community Bank**[®] Branch Manager, as well as continuing to oversee our companies banking operations and community engagements.

Bronwyn Ralph who had been Dromana **Community Bank**[®] Branch Manager for the last two years was moved to Rye **Community Bank**[®] Branch, to take over from Julie Nolo, as its Branch Manager.

This left Julie free to commence marketing the opening of the new Rosebud **Community Bank**[®] Branch three to four months prior to its official opening.

Julie had been at Rye since it opened in June 2001 and its Branch Manager since 2007 at the time Dromana **Community Bank**[®] Branch opened.

Both Julie and Bronwyn faced enormous challenges. Bronwyn's challenges include replacing Julie who was well known and respected in the local area and managing one of the largest **Community Bank**[®] branches in the network. Julie faced all the challenges of starting up a new **Community Bank**[®] branch in a location that includes all four major banks and a couple of other financial institutions.

There was also the challenge of selecting and employing the additional staff needed to operate our expanding business.

Four additional staff were employed across the branches to assist with Rosebud **Community Bank**[®] Branch's opening, but not all started at Rosebud **Community Bank**[®] Branch. Having two other branches we were able to integrate the new staff into our network and include some experienced staff initially at Rosebud **Community Bank**[®] Branch.

We welcomed, Heather Williams as a fulltime Customer Relationship Officer, Julie Casey as a fulltime Customer Service Officer and Judy Blake and Renae Dunston as part time Customer Service Officers.

The new staff increased our staff numbers to 20!

I would like to thank all our staff, new and existing for continuing to provide the high level of customer service we expect in our **Community Bank**[®] branches.

With three branches we moved and rotated staff to best meet the needs of each branch but to also establish a "one team" atmosphere across the group. It doesn't matter if staff work at Rye, Dromana or Rosebud **Community Bank**[®] branches, they are all servicing the same customers who enjoy coming into our branches all the time.

Apart from the new staff joining us we have had a couple of other changes through the year. Tara Delgrosso commenced Maternity Leave on 2 June 2014 and gave birth to a second son Jett Blake Delgrosso on 17 July 2014, a brother to Ryder Stephen Delgrosso. We all congratulate Steve and Tara on their growing family.

Two of our more experienced staff have taken promotions to other areas of the bank. Tim Ling moved to Financial Crimes Investigator e-crime, taking up his new position on Monday 2 June 2014, and Chris Broderick has taken up a Customer Relationship Officer position with our neighbouring **Community Bank**[®] branch at Mt Martha. I congratulate both of them and wish them continued success in their future banking careers.

I would like to thank Gemma Hodgson who has been my Personal Assistant since early 2011 for the support she has provided me. Gemma has also provided ongoing support for some of the Board administration functions and has worked very closely with our company Treasurer, Pat Tonks. I congratulate her on her positive attitude to all her tasks and responsibilities.

Senior Manager's report (continued)

Diane Kennedy, as our Mobile Relationship Manager, continued to provide her customers with high levels of professional service.

I would like to thank all our new staff and Elizabeth Clark, Christine Gray, Chris Broderick, Tim Ling, Patreece Topp, Melissa Bosomworth, Ann Morris, Michelle Owen, Elizabeth Cairns, Luke Sweet and Tara Delgrosso for their support and commitment to our success.

We have continued to receive strong support from our partners Bendigo & Adelaide Bank through primarily our Regional Manager. During the 2013/14 financial year we had the support of two Regional Managers, Michelle Mason and Simon Sponza who I wish to thank for their support of our Board, Managers and myself personally. Through the banks State Support structures for Lending and Operations, our branches have received ongoing support which has been greatly appreciated.

Summary

The 2013/14 financial year has been very challenging in more ways than one.

The opening of our Rosebud **Community Bank**[®] Branch has provided us with the opportunity to continue to grow our business but with that comes cost. We have tried to contain the expenses of opening an additional branch by limiting the number of staff needed to run the branch with just the addition of four Customer Service Officers. However all other costs associated with running a new branch remain similar to our existing branches. We budgeted for additional costs of around \$350,000, which I believe we have managed very well.

The ability of our Group to grow our business by \$40.93 million has gone a long way to covering some of these additional costs.

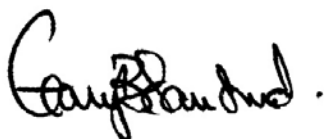
However the overall profitability of the Group has also been effected by the second "Restoring the Balance" adjustment in our Franchise income streams, the 2013/14 financial year saw its full impact. Based on the products held as at 30/6/14 affected by this reduction in income, the overall impact was approximately \$190,000 of reduced income for the year.

The impact of the additional costs associated with opening Rosebud branch and "Restoring the Balance II" has seen the reported drop in profit even though we have continued to grow our footings above our budgets.

Our strengths remain the very high level of customer service we provide across all areas of our business, which will continue to yield high value referrals for new consumer and business customers who are looking for the **Community Bank**[®] model of doing banking.

It is also pleasing to know that although our expenses have increased by operating a third branch in this area we continue to enhance the local economy with the additional salaries going to local employees and with the majority of our operating costs being spent locally wherever possible.

We will continue to strive to be the best **Community Bank**[®] branches in the network, by providing the highest levels of customer service and remain committed to continue our increasing engagement with the local community.



Gary Sanford
Senior Manager

Directors' report

For the financial year ended 30 June 2014

Your directors submit the financial statements of the company for the financial year ended 30 June 2014.

Directors

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

Shane Christopher McCarthy Lib GAICD

Chairman & Director

Occupation: Solicitor & Notary Public

Qualifications, experience and expertise: Chair, Sponsorship & Marketing Committee, 39 years experience as Legal Practitioner.

Special responsibilities: Chair of Sponsorship & Marketing

Interest in shares: 7,404

Stephen Bernard Edmund

Deputy Chairman & Director

Occupation: Real Estate Agent

Qualifications, experience and expertise: 30 years experience Retail Hardware, previously served on National Marketing Committee of Home Hardware, Paul Harris Fellowship of Rotary Club Dromana and Chairman Dromana Chamber of Commerce.

Special responsibilities: Deputy Chairman & Marketing Committee

Interest in shares: 7,200

Patricia Tonks

Treasurer & Director

Occupation: Retiree

Qualifications, experience and expertise: Former Councillor Flinders Shire, 36 years experience Business Administration and President Rye Community Centre.

Special responsibilities: Finance Committee

Interest in shares: 42,236

Dorothy Mortlock

Secretary & Director

Occupation: Retiree

Qualifications, experience and expertise: Former President Rosebud Country Club, Secretary Peninsula Community Fund Inc and Volunteer Peninsula Health.

Special responsibilities: Governance Committee

Interest in shares: 3,000

Eileen Naylor

Director

Occupation: Retiree

Qualifications, experience and expertise: B.A (Hons), 16 years experience Human Resource Management, Rosebud Country Club Member & Vic-President of the Ladies Committee .

Special responsibilities: Sponsorship & Marketing Committee

Interest in shares: 24,000

Directors' report (continued)

Directors (continued)

Barry Leonard Irving

Director

Occupation: Retiree

Qualifications, experience and expertise: Photography, Past President of Rye Rotary Club, Former Secretary Southern Peninsula Rescue Squad and 17 years experience Senior Laboratory Craftsman with C.S.I.R.O.

Special responsibilities: Marketing, Promotion & Advertising

Interest in shares: 3,600

Andrew Ross Emerson

Director

Occupation: Home Furnishing Industry

Qualifications, experience and expertise: 50 years experience Furnishing Industry, Member Lions Club & Member Dromana Primary School Council.

Special responsibilities: Property Maintenance

Interest in shares: 4,000

Gary Michael Cain

Director

Occupation: Accountant, CPA

Qualifications, experience and expertise: CPA Qualified and Former President Rosebud Football Club Inc.

Special responsibilities: Finance Committee

Interest in shares: 5,000

Janet Iris Hall

Director

Occupation: Interior Decorator

Qualifications, experience and expertise: 30 years experience and Sole Operator of Interior Decorating and Chairperson Southern Mornington Peninsula Uniting Church.

Special responsibilities: Governance Committee

Interest in shares: 4,800

Vincent de Paul Cheers

Director

Occupation: Managing Director

Qualifications, experience and expertise: Has successfully run small businesses for the past thirty years.

Currently runs a successful waste and recycling business on the Mornington Peninsula, employing over 30 staff. President of St Francois Foundation, a voluntary not-for-profit NGO serving medical and educational needs in Papua New Guinea.

Special responsibilities: Sponsorship & Marketing Committee

Interest in shares: Nil

Amber Britt Earles

Director (appointed 17 February 2014)

Occupation: Manager, Australian Volunteers International

Qualifications, experience and expertise: BA (Melbourne), Grad. Dip. Ed (Melbourne); Master of Intl. and Community, Devpt. (Deakin); Manager, Learning & Devpt. Services, AVI, Teacher, Indonesia and Northern Territory.

Interest in shares: 1,000

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

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

Directors' report (continued)

Company Secretary

The company secretary is Dorothy Mortlock. Dorothy was appointed to the position of secretary on 22nd April 2014.

Dorothy has extensive experience as a Personal Assistant to a number of senior executives and is Past President of the Rosebud Country Club.

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 2014	Year ended 30 June 2013
\$	\$
309,196	610,389

Operating and financial review

Operations

Rye & District Community Financial Services Limited is a public company listed on the National Stock Exchange of Australia (NSX) and is a franchisee of the Bendigo and Adelaide Bank Limited (BBL), operating Bendigo Bank **Community Bank**[®] branches in Rye, Dromana & Rosebud on Victoria's Mornington Peninsula.

Established in 2001 in Rye, the company has continued to grow into a pre-eminent position among Bendigo Bank **Community Bank**[®] branches in Australia, opening its Dromana Branch in 2007 – the 200th **Community Bank**[®] Branch in the Bendigo Bank network & opening its Rosebud Branch in 2013.

The branches of the Bendigo Bank **Community Bank**[®] operated by the company offer an extensive range of Bendigo Bank products and derive income in six ways:

- Fees
- Margin Income
- Up Front Commissions
- Trailer Commissions
- Interest
- Market Development Fund contributions from BBL

The rates of fees, margins and commissions are determined by BBL as specified in the Franchise Agreement and its various amendments issued from time to time, existing between BBL and the company. It is the objective of this agreement to share margin income from eligible products equally between the company and BBL.

The Franchise Agreement provides for a tenure of 5 years (initial term) x 5 years (1st Renewal period) x 5 years (2nd Renewal Period). The company is currently in the 1st Renewal Period which expires on 30 April 2016.

The company entertains reasonable expectations that this Franchise Agreement will be renewed at the completion of the 2nd Renewal Period, being 30 April 2021.

Directors' report (continued)

Operating and financial review (continued)

Operations (continued)

The year under review continued the trend of recent years of offering difficult trading conditions.

Whilst loan growth and deposit growth were significant, consumer sentiment has been such that the value of new loans being written has been diminished by the pay down existing loans. Shrinking term deposit rates resulting from the RBA's decision to hold the wholesale cash rate at 2.5% since August 2013 has also seen investors looking for other opportunities to maximise the return on their investments.

Nevertheless, the total of funds under management (FUM) rose to \$468,516,085 as at 30th June 2014 compared with an amount of \$427,586,366 for the previous year.

Given the economic environment in which it operates, this growth in total FUM was both satisfying and significant.

Loan funds recorded an increase of \$16,614,884 whilst deposit funds increased by \$18,561,450. Other financial products increased by a satisfying margin of \$4,675,696.

Undoubtedly, the strength of the company lies in the staff it employs and the customer service they deliver.

Staff numbers currently stand at 20, increasing by three over the year with five new staff members appointed to cater for our customer service requirements at Rosebud and two staff leaving the company. Of the two staff who left, one proceeded on maternity leave and has the option to return, the other accepted a position with Bendigo Bank in its Fraud Division.

The company is proud of its ability to support 134 community organisations by way of its grants, donations and sponsorships which, this year, amounted to \$494,875. This brings total donations to the community since the inception of the business to an amount in excess of \$4.5 million.

Financial

The company's revenue at \$3,402,658 showed a small decline over the 2013 result by \$83,510 due to higher than budgeted interest costs associated with the development of the Rosebud property project as well as the full-year impact of Bendigo Bank's Restoring The Balance Mk II.

BBL introduced the second phase of its "Restoring the Balance" program in April 2013, a program whereby the margins afforded to its **Community Bank**[®] partners were reduced to better reflect the even split intended under the Franchise Agreement. (The split had become unbalanced in the wake of the Global Financial Crisis and was in need of adjustment).

This decision, whilst understandable and in the best interests of all parties, still had a considerable adverse impact upon our revenue during the year, reducing the company's potential income (when compared to previous years) by an estimated \$187,000.

The opening of the Rosebud branch and costs associated with the development of the Rosebud property also added to the company's cost base, with total expenditure of \$2,955,373 being some \$341,824 over 2013. Staff costs - mainly attributed to new staff appointed to service the Rosebud branch - increased by \$253,899 year on year.

The impact of diminished revenue and higher costs provided the company with an after tax profit for the financial year under review of \$309,196.

The after tax profit performance of the company over recent years is shown in the table below:

Directors' report (continued)

Operating and financial review (continued)

After Tax Profit Performance 2014 - 2007

	2014	2013	2012	2011	2010	2009	2008	2007
After-tax profit	\$309,196	\$610,389	\$592,419	\$543,969	\$445,806	\$169,150	\$94,257	(\$13,427)

The company's Balance Sheet continued to strengthen during the year, due largely to the increase in equity caused by retained profits from earlier years.

Retained earnings rose from \$1.674 million to \$1.762 million resulting in an increase in net assets from \$2.974 million to \$3.061 million – reflecting increased shareholder value.

The board anticipates that the sale of the residential units and the lease of the additional retail premises at the Rosebud development will have a positive impact on funding costs, reducing them in the current year and further improving the state of the balance sheet.

Despite these factors, both internal and external, impacting the after tax profit, directors are still pleased to be able to declare a dividend for the 2014 year of \$0.06 per share, fully franked.

The rate of fully franked dividend payments over recent years is shown on the table below:

Dividend Distributions 2014 - 2007

	2014	2013	2012	2011	2010	2009	2008	2007
Dividend per share	6.0c	7.75c	7.1c	6.7c	6.5c	4.5c	2.0c	3.0c
Total dividends paid	\$175,896	\$227,199	\$208,144	\$196,417	\$190,554	\$131,922	\$58,632	\$87,948

Business Strategies

Directors are of the opinion that the external environment in which the company operates has become the new norm and that the challenging conditions faced by the company in the 2014 year will continue.

Accordingly, the focus of the business in the coming year will be to continue to grow the company book, principally by growing the lending portfolio and, particularly, by maintaining a strong focus on business lending.

The board forecast the financial challenges associated with the establishment of the new Rosebud office in last year's report and recognises that those challenges persist - the branch being in its second year of operation and needing to grow its awareness and patronage.

Accordingly, management attention will be directed towards building the Rosebud business so that the branch is able to attain profitability in the 2015-2016 financial year.

The company has enjoyed strong community support as a result of its grants, sponsorships and donations program over past years. Continuation of this community support will be directed towards ensuring stronger community awareness and patronage in the coming year, with organisations being made aware that it is only by virtue of their commercial support that our philanthropic program can grow.

Given the geographical constraints surrounding the business, further growth can be achieved by increasing the number of products per customer, bringing with this growth, increased margins and commissions. We will continue to work in partnership with Bendigo Bank to realise this objective.

Directors' report (continued)

Operating and financial review (continued)

Business Strategies (continued)

The company will also work with Bendigo Bank to continue its program of staff development to ensure that appropriate succession capability is in place.

It is pleased that the current managers of its Rye, Rosebud and Dromana branches have all been promoted from within and this practice is one which the company is keen to maintain and develop.

The company retains an option to purchase the site of its Rye branch - an option which needs to be adopted by January 2016. It is the intention of the company to exercise this option by the due date which will give it total ownership of all three sites at which it operates its branches.

Prospects for Future Financial Years

Recent reports from Bendigo Bank indicate that the revenue share achieved by the implementation of Restoring The Balance Mk II is within the targeted range and it is unlikely that there will be a need to implement a third iteration of the program in the coming financial year.

Accordingly, income streams from the provision of BBL products and services will become much more predictable and make budgeting much more realistic.

Your board and Bendigo Bank have approved budgets for 2014-2015 year which will deliver a significantly more profitable outcome than the year under review.

There is reasonable expectation that the residential units which form part of the Rosebud development, will be sold during the year which will reduce the company's debt level and contribute to the anticipated increased profitability. The lease of the retail premises adjoining the branch will add another element to the company's income stream in the coming year and in years to come, further contributing to profitability.

It is believed that there are still growth opportunities in business lending within our catchment area and that these opportunities will fuel future growth. Whilst not ignoring home or consumer lending, it is business lending that will attract most management focus during the coming year.

Remuneration report

Remuneration Policy

The remuneration policy of Rye & District Community Financial Services Limited has been designed to align to key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the company's financial results. The Board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the company, as well as create goal congruence between directors, executives and shareholders.

Key Management Personnel Remuneration Policy

Key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation and performance incentives.

The performance of key management personnel is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the company's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the board's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance results leading to long-term growth in shareholders wealth.

Directors' report (continued)

Remuneration report (continued)

Key Management Personnel Remuneration Policy (continued)

Key management personnel also receive a superannuation guarantee contribution required by the government, which is currently 9.25%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

The contracts for service between the company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future. Upon retirement key management personnel are paid employee benefit entitlements accrued to date of retirement.

Employment agreements were entered into with key management personnel.

Remuneration Structure

All directors are independent non-executive Directors and are paid Directors' fees as disclosed below.

Non-executive director remuneration policy

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board determines payments to the non-executive directors and regularly reviews the amount of fees paid, based on market practices, duties and accountability.

The maximum aggregate amount of fees that can be paid to non-executive Directors requires approval by shareholders as required by the Corporations Act 2001 and NSX listing rules.

Fees for non-executive Directors are not linked to the performance of the Company.

Performance based remuneration

The key performance indicators (KPIs) are set annually, with a certain level of consultation with key management personnel to ensure buy-in. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Company and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the board in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Company's goals and shareholder wealth, before the KPIs are set for the following year.

The Company does not pay performance based remuneration to any Director.

Relationship between Remuneration Policy and Company Performance

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. Performance-based bonus is based on the achievement of KPIs as disclosed above.

The Senior Manager is paid a base salary, which is between \$130,000 and \$145,000 plus the use of a company car. In addition the Senior Manager receives a bonus if the company exceeds the performance criteria established by the Board. The bonus is subject to the board's review of performance and will be in the range of \$5,000 to \$10,000.

Directors' report (continued)

Remuneration report (continued)

Company performance, shareholder wealth and director's and executives' remuneration

The following table shows the gross revenue, profits and dividends for the last six years of the entity, as well as the share price at the end of the respective financial years. Analysis of the actual figures shows excellent growth in revenue, increased payments to community groups and projects as well as consistent returns to shareholders. The company share price at the end of the 2011/2012 financial year is a reflection of the company performance and growth, as well as recognition of the strengthening of the Company's balance sheet. The board is of the opinion that these results can be attributed, in part, to the previously described remuneration policy and is satisfied with the overall trend in shareholder wealth over the past five years.

	2014	2013	2012	2011	2010	2009
Revenue	3,402,658	3,486,168	3,459,053	3,218,264	2,760,156	2,339,744
Net Profit/(Loss)	309,196	610,389	592,419	543,969	445,806	169,150
Share price at Year End	1.15	1.05	1.10	0.80	1.20	0.95
Dividend paid per share	6.0c	7.75c	7.1c	6.7c	6.5c	4.5c
Gross dividend paid	175,896	227,199	208,144	196,418	190,554	131,922

Directors' Remuneration

For the year ended 30 June 2014 the directors received total remuneration, as follows:

	\$
Shane Christopher McCarthy	20,000
Patricia Tonks	15,000
Eileen Naylor	9,375
Barry Irving	7,500
Andrew Ross Emerson	7,500
Janet Iris Hall	7,500
Stephen Bernard Edmund	7,500
Gary Michael Cain	7,500
Dorothy Mortlock	8,125
Vincent de Paul Cheers	7,500
Amber Britt Earles	-

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

Options issued as part of remuneration for the year ended 30 June 2014

No options have been issued as part of remuneration for the year ended 30 June 2014.

Directors' report (continued)

Remuneration report (continued)

Employment Contracts for Directors

There are no employment contracts for Directors.

Dividends

	Year ended 30 June 2014	
	Cents	\$
Final dividends recommended:	6.0c	175,896
Dividends paid in the year:		
- As recommended in the prior year report	7.75c	227,199

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.

Events since the end of the financial year

One of the residential units at 1089 Point Nepean Road, Rosebud has been sold after the close of the 2014 financial year with settlement due on 29th October 2014.

Likely developments

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

The other unit at 1089 Point Nepean Road, Rosebud remains on the market with a reasonable expectation that it will be sold during the 2014/15 financial year. There are no other major developments planned for the coming financial year which are likely to impact upon the company's performance. However, the company does intend to exercise its option to buy the Rye premises it currently occupies in the 2015-2016 financial year at a price set when the option was offered in 2011.

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' report (continued)

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 & Governance		Sponsorship & Marketing		Finance	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
Shane Christopher McCarthy Lib GAICD	14	13	-	-	11	7	-	-
Stephen Bernard Edmund	14	12	-	-	-	-	-	-
Patricia Tonks	14	12	-	-	-	-	2	2
Dorothy Mortlock	14	12	4	4	-	-	-	-
Eileen Naylor	14	13	-	-	11	9	-	-
Barry Leonard Irving	14	13	-	-	-	-	-	-
Andrew Ross Emerson	14	11	-	-	-	-	-	-
Gary Michael Cain	14	13	-	-	-	-	2	2
Janet Iris Hall	14	12	4	4	4	4	-	-
Vincent de Paul Cheers	14	12	-	-	11	9	-	-
Amber Britt Earles	6	6	-	-	-	-	-	-

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 & governance 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:

Directors' report (continued)

Non audit services (continued)

- all non-audit services have been reviewed by the audit & governance 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 19.

Signed in accordance with a resolution of the board of directors at Dromana on 23 September 2014.



**Shane Christopher McCarthy Lib GAICD,
Chairman**

Auditor's independence declaration



Lead auditor's independence declaration under section 307C of the *Corporations Act 2001* to the directors of Rye & District Community Financial Services Limited

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2014 there have been no contraventions of:

- the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review
- any applicable code of professional conduct in relation to the review.

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

David Hutchings
Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550

Dated: 23 September 2014

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 2014

	Note	2014 \$	2013 \$
Revenue from ordinary activities	4	3,402,658	3,486,168
Employee benefits expense		(1,541,571)	(1,287,672)
Charitable donations, sponsorship, advertising and promotion		(555,278)	(595,725)
Occupancy and associated costs		(208,375)	(185,293)
Systems costs		(160,067)	(133,818)
Depreciation and amortisation expense	5	(147,488)	(89,618)
Finance costs	5	(114,537)	(98,905)
General administration expenses		(228,057)	(222,518)
Profit before income tax expense		447,285	872,619
Income tax expense	6	(138,089)	(262,230)
Profit after income tax expense		309,196	610,389
Total comprehensive income for the year		309,196	610,389
Earnings per share for profit attributable to the ordinary shareholders of the company:			
		¢	¢
Basic earnings per share	23	10.55	20.82

The accompanying notes form part of these financial statements.

Financial statements (continued)

Balance Sheet as at 30 June 2014

	Note	2014 \$	2013 \$
ASSETS			
Current Assets			
Cash and cash equivalents	7	154,964	761,224
Trade and other receivables	8	316,529	289,897
Current tax assets	11	40,508	-
Total Current Assets		512,001	1,051,121
Non-Current Assets			
Property, plant and equipment	9	4,526,267	3,508,084
Financial assets	10	10,000	10,000
Intangible assets	11	112,423	67,661
Deferred tax assets	12	49,174	39,217
Total Non-Current Assets		4,697,864	3,624,962
Total Assets		5,209,865	4,676,083
LIABILITIES			
Current Liabilities			
Trade and other payables	13	97,612	122,134
Current tax liabilities	12	-	52,358
Borrowings	14	201,870	224,032
Provisions	15	142,353	101,114
Total Current Liabilities		441,835	499,638
Non-Current Liabilities			
Borrowings	14	1,673,236	1,159,007
Provisions	15	39,036	43,676
Total Non-Current Liabilities		1,712,272	1,202,683
Total Liabilities		2,154,107	1,702,321
Net Assets		3,055,758	2,973,762
Equity			
Issued capital	16	1,299,400	1,299,400
Retained earnings	17	1,756,358	1,674,362
Total Equity		3,055,758	2,973,762

The accompanying notes form part of these financial statements.

Financial statements (continued)

Statement of Changes in Equity for the year ended 30 June 2014

	Issued capital \$	Retained earnings \$	Total equity \$
Balance at 1 July 2012	1,299,400	1,272,202	2,571,602
Total comprehensive income for the year	-	610,389	610,389
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(208,229)	(208,229)
Balance at 30 June 2013	1,299,400	1,674,362	2,973,762
Balance at 1 July 2013	1,299,400	1,674,362	2,973,762
Total comprehensive income for the year	-	309,196	309,196
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(227,200)	(227,200)
Balance at 30 June 2014	1,299,400	1,756,358	3,055,758

The accompanying notes form part of these financial statements.

Financial statements (continued)

Statement of Cash Flows for the year ended 30 June 2014

	Note	2014 \$	2013 \$
Cash flows from operating activities			
Receipts from customers		3,382,412	3,450,655
Payments to suppliers and employees		(2,656,347)	(2,473,087)
Interest received		8,287	40,006
Interest paid		(113,264)	(98,806)
Income taxes paid		(203,227)	(276,534)
Net cash provided by operating activities	18	417,861	642,234
Cash flows from investing activities			
Payments for property, plant and equipment		(1,217,624)	(520,927)
Payments for office furniture and equipment		-	(512)
Proceeds from sale of property, plant and equipment		8,636	10,908
Payments for intangible assets		(80,000)	-
Net cash provided used in investing activities		(1,288,988)	(510,531)
Cash flows from financing activities			
Proceeds from borrowings		756,030	185,980
Repayment of borrowings		(263,963)	(127,945)
Dividends paid		(227,200)	(208,229)
Net cash provided by/(used in) financing activities		264,867	(150,194)
Net decrease in cash held		(606,260)	(18,491)
Cash and cash equivalents at the beginning of the financial year		761,224	779,715
Cash and cash equivalents at the end of the financial year	7(a)	154,964	761,224

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2014

Note 1. Summary of significant accounting policies

a) Basis of preparation

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

Compliance with IFRS

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

Critical accounting estimates

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

Historical cost convention

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

Comparative figures

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

Adoption of new and amended accounting standards

The company adopted the following standards and amendments, mandatory for the first time for the annual reporting period commencing 1 July 2013:

- AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements.
- AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, AASB 128 Investments in Associates and Joint Ventures, AASB 127 Separate Financial Statements and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards.
- AASB 2012-9 Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039.
- AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and other Amendments which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current period.
- AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Adoption of new and amended accounting standards (continued)

- AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011).
- AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle.
- AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities.

AASB 2011-4 removes the individual key management personnel disclosure requirements in AASB 124 Related Party Disclosures. As a result the company now only discloses the key management personnel compensation in total and for each of the categories required in AASB 124. Detailed key management personnel compensation is outlined in the remuneration report, included as part of the directors report.

The adoption of revised standard AASB 119 has resulted in a change to the accounting for the company's annual leave obligations. As the entity does not expect all annual leave to be taken within 12 months of the respective service being provided, annual leave obligations are now classified as long-term employee benefits in their entirety. This changes the measurement of these obligations, as the entire obligation is now measured on a discounted basis and no longer split into a short-term and a long-term portion. However, the impact of this change is considered immaterial on the financial statements overall as the majority of the annual leave is still expected to be taken within 12 months after the end of the reporting period.

None of the remaining new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2013 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

The company has not elected to apply any pronouncements before their mandatory operative date in the annual reporting period beginning 1 July 2013.

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 Rye, Dromana & Rosebud.

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.

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:

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 (continued)

- advice and assistance in relation to the design, layout and fit out of the **Community Bank**[®] branches
- training for the branch managers 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.

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

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 (i.e. ‘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 (i.e. ‘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 and February 2013 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 (i.e. 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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

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.

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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

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.

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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

k) Financial instruments (continued)

Recognition and initial measurement (continued)

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 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.

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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

l) Leases (continued)

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.

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.

Notes to the financial statements (continued)

Note 2. Financial risk management (continued)

(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%.

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 2014 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.

Notes to the financial statements (continued)

Note 3. Critical accounting estimates and judgements (continued)

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

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

Taxation

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

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

These judgements and assumptions are subject to risk and uncertainty. 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 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.

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.

Notes to the financial statements (continued)

Note 3. Critical accounting estimates and judgements (continued)

Impairment of assets (continued)

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.

	2014	2013
	\$	\$
Note 4. Revenue from ordinary activities		
Operating activities:		
- services commissions	3,393,247	3,438,403
Total revenue from operating activities	3,393,247	3,438,403
Non-operating activities:		
- interest received	8,287	39,672
- rental revenue	1,124	5,593
- other revenue	-	2,500
Total revenue from non-operating activities	9,411	47,765
Total revenues from ordinary activities	3,402,658	3,486,168

Note 5. Expenses

Depreciation of non-current assets:

- motor vehicles	15,764	13,216
- office furniture and equipment	5,091	4,574
- leasehold improvements	91,395	47,943

Amortisation of non-current assets:

- franchise agreement	15,667	4,314
- franchise renewal fee	19,571	19,571
	147,488	89,618

Finance costs:

- interest paid	114,537	98,905
Bad debts	3,773	5,310
Loss on disposal of non current assets	(2,215)	(11,738)

Notes to the financial statements (continued)

	Note	2014 \$	2013 \$
Note 6. Income tax expense			
The components of tax expense comprise:			
- Current tax		148,046	258,270
- Future income tax benefit attributable to losses		-	-
- Movement in deferred tax		(9,957)	3,960
- Recoupment of prior year tax losses		-	-
		138,089	262,230

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

Operating profit		447,285	872,619
Prima facie tax on profit from ordinary activities at 30%		134,185	261,786
Add tax effect of:			
- non-deductible expenses		4,676	975
- timing difference expenses		10,435	(3,960)
- other deductible expenses		(1,250)	(531)
		148,046	258,270
Movement in deferred tax	12	(9,957)	3,960
		138,089	262,230

Note 7. Cash and cash equivalents

Cash at bank and on hand		126,074	25,142
Term deposits		28,890	736,082
		154,964	761,224

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		126,074	25,142
Term deposits		28,890	736,082
		154,964	761,224

Note 8. Trade and other receivables

Trade receivables		285,309	273,350
Prepayments		31,220	16,547
		316,529	289,897

Notes to the financial statements (continued)

	2014 \$	2013 \$
Note 9. Property, plant and equipment		
Land & Buildings		
At cost	4,408,720	3,385,055
Less accumulated depreciation	(301,921)	(227,553)
	4,106,799	3,157,502
Motor Vehicles		
At cost	95,294	92,617
Less accumulated depreciation	(19,868)	(26,861)
	75,426	65,756
Office Furniture & Equipment		
At cost	79,644	71,182
Less accumulated depreciation	(43,367)	(38,276)
	36,277	32,906
Leasehold improvements		
At cost	374,890	302,018
Less accumulated depreciation	(67,125)	(50,098)
	307,765	251,920
Total written down amount	4,526,267	3,508,084
Movements in carrying amounts:		
Land & Buildings		
Carrying amount at beginning	3,157,502	2,651,365
Additions	1,023,665	535,517
Disposals	-	-
Less: depreciation expense	(74,368)	(29,380)
Carrying amount at end	4,106,799	3,157,502
Motor Vehicles		
Carrying amount at beginning	65,758	42,608
Additions	36,284	59,012
Disposals	(10,852)	(22,646)
Less: depreciation expense	(15,764)	(13,216)
Carrying amount at end	75,426	65,758

Notes to the financial statements (continued)

	2014 \$	2013 \$
Note 9. Property, plant and equipment (continued)		
Office Furniture and equipment		
Carrying amount at beginning	32,904	34,227
Additions	8,464	3,251
Disposals	-	-
Less: depreciation expense	(5,091)	(4,574)
Carrying amount at end	36,277	32,904
Leasehold improvements		
Carrying amount at beginning	251,920	270,483
Additions	72,872	-
Disposals	-	-
Less: depreciation expense	(17,027)	(18,563)
Carrying amount at end	307,765	251,920
Total written down amount	4,526,267	3,508,084

Note 10. Financial Assets

Loan - Edenhope & District Financial Services Limited	10,000	10,000
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The loan is an interest free loan with repayment of the principal due five years from the date of the loan agreement, being 27 March 2017.

Note 11. Intangible assets

Franchise fee		
At cost	139,570	129,570
Less: accumulated amortisation	(123,082)	(117,349)
	16,488	12,221
Establishment fee		
At cost	70,000	-
Less: accumulated amortisation	(9,934)	-
	60,066	-
Renewal processing fee		
At cost	97,853	97,853
Less: accumulated amortisation	(61,984)	(42,413)
	35,869	55,440
Total written down amount	112,423	67,661

Notes to the financial statements (continued)

	Note	2014 \$	2013 \$
Note 12. Tax			
Current:			
Income tax payable/(receivable)		(40,508)	52,358
Non-Current:			
Deferred tax assets			
- accruals		-	100
- employee provisions		55,015	43,437
- tax losses carried forward		-	-
		55,015	43,537
Deferred tax liability			
- accruals		-	-
- deductible prepayments		5,841	4,320
		5,841	4,320
Net deferred tax asset		49,174	39,217
Movement in deferred tax charged to statement of comprehensive income		(9,957)	3,961

Note 13. Trade and other payables

Trade creditors		7,872	86,962
Other creditors and accruals		89,740	35,172
		97,612	122,134

Note 14. Borrowings

Current:			
Lease liability	19	26,359	15,560
Bank loans		175,511	208,472
		201,870	224,032
Non-Current:			
Lease liability	19	42,752	41,432
Bank loans		1,630,484	1,117,575
		1,673,236	1,159,007

Bank loans are repayable monthly with the final instalment due on 22nd May 2016. Interest is recognised at an average rate of 6.02% (2013: 8.48%). The loans are secured by a fixed and floating charge over the company's assets.

Notes to the financial statements (continued)

Note 14. Borrowings (continued)

The Honda Civic's x 2 chattel mortgage, which commenced in 2013, are 4-year contracts. Interest is recognised at an average rate of 5.65% . The Ford chattel mortgage, which commenced in 2014, is a 3-year contract. Interest is recognised at an average rate of 5.65%.

	2014 \$	2013 \$
Note 15. Provisions		
Current:		
Provision for annual leave	54,667	40,750
Provision for long service leave	87,686	60,364
	142,353	101,114
Non-Current:		
Provision for long service leave	39,036	43,676

Note 16. Contributed equity

2,931,605 ordinary shares fully paid (2013: 2,931,605)	1,340,732	1,340,732
Less: equity raising expenses	(41,332)	(41,332)
	1,299,400	1,299,400

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**[®] branches 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 16. 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 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 270. As at the date of this report, the company had 522 shareholders.

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

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

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

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

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

Notes to the financial statements (continued)

	2014 \$	2013 \$
Note 17. Retained earnings		
Balance at the beginning of the financial year	1,674,362	1,272,202
Net profit from ordinary activities after income tax	309,196	610,389
Dividends paid or provided for	(227,200)	(208,229)
Balance at the end of the financial year	1,756,358	1,674,362

Note 18. 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	309,196	610,389
Non cash items:		
- depreciation	112,250	65,733
- amortisation	35,238	23,885
- loss on sale of assets	2,215	11,738
Changes in assets and liabilities:		
- (increase)/decrease in receivables	(11,959)	4,493
- (increase)/decrease in other assets	(65,138)	6,836
- increase/(decrease) in payables	51,818	(46,272)
- increase/(decrease) in provisions	36,599	(16,303)
- increase/(decrease) in current tax liabilities	(52,358)	(18,265)
Net cash flows provided by operating activities	417,861	642,234

Note 19. Leases

Finance lease commitments

Payable - minimum lease payments:

- not later than 12 months	29,587	18,382
- between 12 months and 5 years	44,716	44,422
- greater than 5 years	-	-
Minimum lease payments	74,303	62,804
Less future finance charges	(5,192)	(5,812)
Present value of minimum lease payments	69,111	56,992

The Honda Civic's x 2 chattel mortgage, which commenced in 2013, are 4-year contracts. Interest is recognised at an average rate of 5.65% . The Ford chattle mortgage, which commenced in 2014, is a 3-year contract. Interest is recognised at an average rate of 5.65%.

Notes to the financial statements (continued)

	2014 \$	2013 \$
Note 19. Leases (continued)		
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	84,000	84,000
- between 12 months and 5 years	49,000	133,000
- greater than 5 years		
	133,000	217,000

The Rye Rental lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance.

Note 20. Auditor's remuneration

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

- audit and review services	6,942	6,458
- share registry services	-	-
- non audit services	-	420
	6,942	6,878

Note 21. Director and related party disclosures

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

Shane Christopher McCarthy
Patricia Tonks
Eileen Naylor
Barry Irving
Andrew Ross Emerson
Janet Iris Hall
Stephen Bernard Edmund
Gary Michael Cain
Dorothy Mortlock
Vincent de Paul Cheers
Amber Britt Earles

The Board has adopted a policy in respect to director fees with the following objectives:

- To attract and retain appropriately qualified and experienced directors; and
- To remunerate directors in regard to their responsibilities.

In accordance with Board policy, director remuneration comprises a base fee together with a 9.25% superannuation guarantee charge.

Notes to the financial statements (continued)

Note 21. Director and related party disclosures (continued)

Directors fees are determined by the Board and are not to exceed \$100,000 in aggregate, the allocation of which is determined at the discretion of the Board. This policy was approved by the shareholders at the 2007 Annual General Meeting held 31 October 2008.

During the normal course of business operations, Rye & District Community Financial Services Limited utilised services offered by local community business. Some of these transactions included businesses which some Directors have direct or indirect interest. These transactions are considered to be made at an arms length basis and are on normal commercial terms and are outlined below:

Shane McCarthy is a director of McCarthy Partners Solicitors which supplies the company with legal services. During the financial year the total benefit received by McCarthy Partners Solicitors was \$Nil (2013 \$Nil).

Vincent Cheers is a director of Vins Bins which supplied wate management services to a third party which in turn on charged to the company. During the financial year the total benefit received by Vins Bins through this transaction was \$2,858 (2013 \$Nil).

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

Directors' Shareholdings

	2014	2013
Shane Christopher McCarthy	7,404	7,404
Patricia Tonks	42,236	42,236
Eileen Naylor	24,000	24,000
Barry Irving	3,600	3,600
Andrew Ross Emerson	4,000	4,000
Janet Iris Hall	4,800	4,800
Stephen Bernard Edmund	7,200	7,200
Gary Michael Cain	5,000	5,000
Dorothy Mortlock	3,000	3,000
Vincent de Paul Cheers	-	-
Amber Britt Earles	1,000	-

There was movement in directors shareholdings during the year.

Notes to the financial statements (continued)

	2014 \$	2013 \$
Note 22. Dividends paid or provided		
a. Dividends paid during the year		
Prior year proposed final	227,200	208,144
100% (2013: 100%) franked dividend - 7.75 cents (2013: 7.1 cents) per share		
b. Dividends proposed and not recognised as a liability		
Current year final dividend		
100% (2013: 100%) franked dividend - 6.0 cents (2013: 7.75 cents) per share	175,896	227,199
The tax rate at which dividends have been franked is 30% (2013: 30%).		
Dividends proposed will be franked at a rate of 30% (2013: 30%).		
c. Franking account balance		
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	934,962	779,421
- franking credits that will arise from payment of income tax payable as at the end of the financial year	(46,698)	52,358
- 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:	888,264	831,779
- 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	(75,384)	(97,371)
Net franking credits available	812,880	734,408

Note 23. Earnings per share

		2014 \$	2013 \$
(a)	Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	309,196	610,389
		Number	Number
(b)	Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	2,931,605	2,931,605

Notes to the financial statements (continued)

Note 24. 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 25. Contingent liabilities and contingent assets

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

Note 26. Segment reporting

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

Note 27. 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
Rye & District Community Financial Services Ltd 2271 Point Nepean Road Rye Vic 3941	Rye & District Community Financial Services Ltd 2271 Point Nepean Road Rye Vic 3941
	Rye & District Community Financial Services Ltd 239 Point Nepean Road Dromana Vic 3936
	Rye & District Community Financial Services Ltd 1087-1089 Point Nepean Road Rosebud Vic 3939

Notes to the financial statements (continued)

Note 28. 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					
	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$	2014 %	2013 %
Financial assets												
Cash and cash equivalents	154,289	148,176	-	612,573	-	-	-	-	475	475	5.37	3.74
Receivables	-	-	-	-	-	-	-	-	284,887	272,092	N/A	N/A
Financial liabilities												
Interest bearing liabilities	-	-	26,359	15,560	42,752	41,432	1,805,795	1,325,847	-	-	6.02	8.48
Payables	-	-	-	-	-	-	-	-	39,082	111,466	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.

Notes to the financial statements (continued)

Note 28. Financial instruments (continued)

Sensitivity Analysis (continued)

As at 30 June 2014, the effect on profit and equity as a result of changes in interest rate, with all other variables remaining constant would be as follows:

	2014 \$	2013 \$
Change in profit/(loss)		
Increase in interest rate by 1%	1,543	1,482
Decrease in interest rate by 1%	1,543	1,482
Change in equity		
Increase in interest rate by 1%	1,543	1,482
Decrease in interest rate by 1%	1,543	1,482

Directors' declaration

In accordance with a resolution of the directors of Rye & District 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 2014 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.



**Shane Christopher McCarthy Lib GAICD,
Chairman**

Signed on the 23rd of September 2014.

Independent audit report



Independent auditor's report to the members of Rye & District Community Financial Services Limited

Report on the financial report

I have audited the accompanying financial report of Rye & District Community Financial Services Limited, which comprises the balance sheet as at 30 June 2014, 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

My responsibility is to express an opinion on the financial report based on the audit. I conducted the audit in accordance with Australian Auditing Standards. These auditing standards require that I 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 my 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, I 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.

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

I 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 my understanding of the company's financial position and of its performance.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my 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 the audit I have complied with the independence requirements of the *Corporations Act 2001*. I 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 my opinion:

1. The financial report of Rye & District 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 2014 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

I have audited the remuneration report included in the directors' report for the year ended 30 June 2014. 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*. My responsibility is to express an opinion on the remuneration report, based on the audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In my opinion, the remuneration report of Rye & District Community Financial Services Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.



David Hutchings
Andrew Frewin Stewart
61 Bull Street Bendigo Vic 3550

Dated: 23 September 2014

NSX report

Share Information

In accordance with National Stock Exchange of Australia listing rules, the Company provides the following information as at 18 September 2014, 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	85
1,001 to 5,000	315
5,001 to 10,000	63
10,001 to 100,000	56
100,001 and over	1
Total shareholders	520

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

There are no substantial shareholders (holding more than 5% of voting rights) as each shareholder is entitled to 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 two 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 11 largest shareholders.

Shareholder	Number of shares	Percentage of capital
PLANNED LIVING PTY LTD <SUPERANNUATION FUND A/C>	101,000	3.45
THOMAS LEIGH ATF THE WARING SUPERANNUATION FUND	75,710	2.58
JOHN LEONARD SEEBER	60,000	2.05
EGP Fund No.1 PTY LTD	48,000	1.64
BERNARD WILFRED & PATRICIA TONKS	42,236	1.44
KADAN SUPERANNUATION PTY LTD	39,199	1.34
LOUISE ROSE WHITEHEAD	35,088	1.20
FUND RAISING MANAGEMENT SERVICES PTY LTD AS TRUSTEE FOR <TREVORROW SUPERANNUATION FUND A/C>	34,000	1.16
KENNETH JACK & GLORIA PEGGY SPUNNER	32,000	1.09
JAMES LYNDON NAYLOR	26,000	0.89
RICHARD GORMAN & MARILLA GORMAN AS TRUSTEE FOR <GORMAN SUPER FUND A/C>	26,000	0.89
	519,233	17.71

NSX report (continued)

Registered Office and principal administrative office

The registered office of the company is located at:

2271 Point Nepean Road

Rye VIC 3941

Phone: (03) 5985 9755

The principal administrative office of the company is located at:

239 Point Nepean Road

Dromana VIC 3936

Phone: (03) 5987 0754

Security Register

The security register (share register) is kept at:

Richmond Sinnott Delahunty Pty Ltd

Level 2

10-16 Forest Street

Bendigo VIC 3552

Phone: (03) 5443 1177

Company Secretary

The Company Secretary is Dorothy Mortlock who was appointed to the position of Secretary on 1st April 2014.

Corporate Governance

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

- (a) The establishment of an Audit & Governance Committee
- (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.

Sponsorship allocations

Community Group/recipient	Total investment
3RPP	\$2,750
Advance –Learn Local	\$1,000
B&ABL Region	\$2,000
Birdlife Mornington Peninsula	\$500
Blairgowrie Tennis Club	\$500
Boneo Baseball/Softball Club	\$1,000
Boneo Fire Brigade	\$32,000
C.O.A.C.H Community Mentoring	\$5,000
Cancer Walk	\$500
Caroline Chisholm Education Foundation	\$15,000
Carrington Park Golf Club at Eagle Ridge	\$2,000
Chaplaincy Committee of Rosebud Secondary College	\$5,000
CJ Rockers	\$500
Clothes 4U	\$1,000
Dromana Art Show	\$1,500
Dromana Bay Life Saving Club	\$500
Dromana Bay Valley Probus Club	\$500
Dromana Bowls Club	\$3,000
Dromana Chaplaincy Committee	\$2,500
Dromana Community House	\$10,000
Dromana Football & Netball Club	\$10,000
Dromana Foreshore Committee of Management	\$2,000
Dromana Hands on Health	\$2,500
Dromana Junior Football & Netball Club	\$3,000
Dromana Potters Group	\$500
Dromana Secondary College	\$2,000
Dromana Valley Probus Club	\$560
Eastbourne Primary School	\$8,000

Community Group/recipient	Total investment
Fight For Life	\$1,000
Fit2Drive (Arthurs Seat Challenge)	\$10,000
Flinders Bowls Division	\$2,500
Flinders District Lions Club	\$2,000
Greenlight Youth Driver Education Program	\$3,950
Ingham Growers Group	\$1,800
Keep Your Cool	\$1,000
Light Up Autism Foundation	\$10,000
Lions Club of McCrae & District	\$1,000
Main Ridge Bowls Club	\$3,000
Main Ridge CFA	\$8,000
Main Ridge Cricket Club	\$1,000
Main Ridge Tennis Club	\$1,000
McCrae Yacht Club	\$10,000
Mornington Peninsula Cricket Assoc	\$10,000
Morn Pen Junior Football League	\$7,500
Mornington Peninsula Nepean Football League	\$10,000
Mornington Peninsula Netball Assoc	\$3,000
Morn Pen Shire "Pet Expo"	\$1,000
Morn Pen Shire Council - Australia Day Sponsorships	\$7,500
Morn Pen Veteran Golfers Association	\$500
Mornington Peninsula Hinterland Tourism Association	\$1,000
MPJFL Youth Girls Team	\$500
National Seniors Australia Morn Pen Branch	\$500
National Servicemen's Association of Australia	\$500
Nepean Historical Society	\$1,000
Nepean Netball Association	\$5,000

Sponsorship allocations (continued)

Community Group/recipient	Total investment	Community Group/recipient	Total investment
Peninsula Magpies Supporters Club	\$500	Rye Beach Community Centre	\$1,000
Peninsula Short Film Fest	\$2,500	Rye Bowls Club	\$3,000
Portsea Camp	\$10,000	Rye Junior Football Club	\$3,000
Radio 3RPP	\$5,000	Rye Netball Club	\$1,000
Red Hill & District Memorial Pre-school	\$6,000	Rye Primary School	\$5,000
Red Hill Cricket Club	\$1,000	Rye Sports & Social Club	\$5,000
Red Hill District Lions Club	\$1,819	Rye Tennis Club	\$1,000
Red Hill Football Netball Club	\$10,000	Rye Yacht Club	\$2,500
Red Hill Consolidated School	\$8,400	Safety Beach Dromana Men's Shed	\$836
Red Hill Gardening Society	\$1,500	Safety Beach Golf Club	\$2,000
Red Hill Junior Football Club	\$3,000	Safety Beach Sailing Club	\$4,250
Red Hill Tennis Club	\$1,000	Seawinds Community Hub	\$2,000
Rosebud & McCrae Life Saving Club	\$2,500	Sorrento Bowls Club	\$3,000
Rosebud Bowls Club	\$3,000	Sorrento Cricket Club	\$1,000
Rosebud Chamber of Commerce	\$5,000	Sorrento Croquet Club	\$500
Rosebud Community Garden	\$500	Sorrento Football & Netball Club	\$10,000
Rosebud Country Club Bowls Division	\$3,000	Sorrento Junior Football Club	\$3,000
Rosebud Cricket Club	\$1,000	Sorrento Netball Club	\$1,000
Rosebud Football Netball Club	\$10,000	Sorrento SES	\$10,000
Rosebud Hands on Health	\$3,400	Sorrento Portsea RSL	\$500
Rosebud Heart Junior Soccer Club	\$1,000	Southern Mornington Peninsula Uniting Church Op Shop	\$2,000
Rosebud Hospital Auxiliary	\$1,000	Southern Peninsula Basketball Assoc	\$5,000
Rosebud Italian Club	\$2,000	Southern Peninsula Basketball Assoc	\$20,000
Rosebud Junior Football Club	\$500	Southern Peninsula Little Athletics Club	\$1,000
Rosebud Men's Shed	\$500	St Andrew's Beach Petanque Club	\$500
Rosebud Primary School	\$10,000	St Andrews Recreation Club	\$1,000
Rosebud Rock N Rods Festival	\$500	St George's Anglican Church Red Hill	\$4,000
Rosebud Soccer Club	\$1,000	Sthn Pen Classic & Historic Car Club	\$500
Rosebud Tennis Club	\$1,000	Sthn Pen Community Support & Information Centre	\$10,000
Royal District Nursing Service	\$7,333		
Rotary Club of Sorrento	\$2,000		

Sponsorship allocations (continued)

Community Group/recipient	Total investment
Sthn Pen Food for All	\$4,800
Sthn Peninsula Cancer Support Centre	\$12,000
Sthn Peninsula Trim & Slim Club	\$445
Studio Sorrento	\$500
Team Radiguard	\$500
The Dunes Golf Club	\$2,300
The Studio @ Flinders Gallery	\$500
The Village Glen Bowls Club	\$3,000
The Village Glen Fidelity Club	\$500
Tootgarook Primary School	\$30,000
Village Glen Golf Club	\$2,500
Vinnies Kitchen	\$4,800
West Rosebud Bowling Club	\$3,000
West Rosebud Primary Schools Bowls Championships	\$750
Westernport Coastguard	\$2,000
White Cliffs Camerons Bight Committee of Management	\$1,000
Woodworkers of the Southern Peninsula	\$650
Wurru Wurru	\$1,000
YMCA - Rye Youith Services	\$50,000



Rye & District **Community Bank**[®] Branch
2271 Point Nepean Road, Rye, VIC 3941
Phone: (03) 5985 9755

Dromana **Community Bank**[®] Branch
239 Point Nepean Road, Dromana VIC 3936
Phone: (03) 5981 0106

Rosebud **Community Bank**[®] Branch
1087 Point Nepean Road, Rosebud VIC 3939
Phone: (03) 5982 0499

Franchisee: Rye & District Community Financial
Services Limited
PO Box 301, Rye VIC 3941
Phone: (03) 5987 0754
ABN: 67 095 766 895

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