Valley Community Financial Services Limited

ABN 86 092 399 730

ANNUAL REPORT 2013

Hurstbridge & Districts **Community Bank®** Branch
Diamond Creek **Community Bank®** Branch
Eltham & District **Community Bank®** Branch
Doreen & Mernda **Community Bank®** Branch
Kinglake branch

Contents

Chairman's report

For year ending 30 June 2013

We continue to weave our way through a tough economic environment as people look to consolidate their own financial position, and margins are being squeezed on our products.

I am pleased to report solid growth in our business for the 2013 financial year.

The 2013 financial year has been a year of consolidation with a focus on growing our new branches to profit and providing the necessary support to Hurstbridge and Diamond Creek to ensure their continued success.

Milestone achievements

The Kinglake sub branch business reached the trigger point of $20 million in banking footings enabling it to expand into a full branch.

The Board decided to fund that expansion without seeking to raise capital from the Kinglake community.

We were able to secure more suitable premises both in size and location in the Main Street of Kinglake and opened the new branch in October 2012. The branch has received a great response to the upgrade and is growing well. While still some way off profitability, it did manage to report a small profit for the month of June. This will be a good small business for the company as it continues to grow.

In June this year our business exceeded $400 million in banking footings, one of only a few **Community Bank®** Groups to do so. Footings are the total amount of the company's book: total lending plus total deposits. We finished the year just short of $410 million which is almost 11% growth for the financial year.

The company also made the final contribution to the **Community Bank** Stadium naming rights agreement. The naming rights will expire in 2022 giving the company plenty of promotional opportunities in that time.

Business development

Hurstbridge & Districts **Community Bank®** Branch continues to be our flagship branch. The branch continues to perform well receiving tremendous support from the community. Dion Shirley and his team offer quality, friendly service and are well known and respected in Hurstbridge and the district.

Diamond Creek **Community Bank®** Branch has found 2013 a challenging year but still managed to show a small growth for the year. Tina Elmer and her team are exploring new opportunities and are building strong links with community groups; which is the best way for us to build our business.

The Eltham & District **Community Bank®** Branch managed to grow the business by 23%. The branch is close to making a monthly profit and should reach that milestone in the 2014 financial year. Eltham is a very tough market with huge competition around it. Liam Jones and his team have also been working hard with community partners to tell our story and the benefits that come back to the community by supporting our business.

Doreen & Mernda **Community Bank®** Branch has started to achieve great results in the latter part of the year. Once again Jennifer Pearson and her team have been very active in their community, building relationships and partnerships with community organisations. Jennifer's hard work is paying off now, and if we see uplift in the housing market we are expecting some very good results soon. The branch is still some way off reaching profitability but I think the outlook is very good.

Margin squeeze

In April 2013 the franchisor, Bendigo and Adelaide Bank, once again reduced **Community Bank®** branches' margins on some products in order to restore the balance of profits between the franchisee and franchisor to the level stipulated in the Franchise Agreement. The changes made will cost our business around $165,000 in a full year, based on the existing footing. We experienced a reduction of the same magnitude two years ago.

The Board will monitor expenses very closely over the next 12 months and push to grow our market share in the region to counter this significant reduction in income.

Our staff

I would like to acknowledge our staff for the commitment and dedication to their roles. Being a **Community Bank®** branch staff member is quite different to just a normal banking job. They are called upon to attend and speak at community functions and engage the community wherever possible. These functions are often after hours and they do a great job promoting our business.

Some of the best examples of this commitment are the various local festivals in each of our communities. Every year our branch staff help set up and take down our stalls, tell our story and talk to potential customers during the day and sometimes into the night. These are very important functions for our people to keep the community informed of what we do and how we can help both our customers and the community.

Our Managers are also extraordinary in attending just about every possible function at weekends and evenings and I would like to publicly thank them for the way they apply themselves to the task.

We also have an administration team of one full time, and two part time people. These three individuals are just as committed to our business as the bankers. They perform their roles with great enthusiasm and professionalism. They are often the first point of contact for community groups and they are very good at telling our story. I am regularly informed by people who have converted to the **Community Bank®** model of how they were introduced to the relevant Manager to help bring their business to ours by our administrative staff.

Directors

We are fortunate to have a group of people with a wide range of skills and experience to sit on the Board. This is a very busy and demanding role. Directors are called upon to do more than just attend monthly Board and committee meetings. The role requires community engagement, knowledge of the region and a commitment to the communities we serve.

There are many tasks from business strategy planning to policies and procedures and also developing, managing and implementing annual budgets. Then there is the call to attend community functions and meetings with community groups. We are constantly trying to tell our story - educating people about the link between the funds we make available and the need to grow our business to earn those funds.

Our Directors are often called on within the **Community Bank®** network too. This year Daryl Brooke was asked to make a presentation at a **Community Bank®** conference on business planning and strategy plans. He has now been appointed a mentor to the network by the Bendigo and Adelaide Bank.

In the 2013 Queen's Birthday awards Malcolm Hackett was awarded an OAM for his work after the bushfires in his community.

I am humbled by the quality of people we have and thank them all for their work over the last 12 months.

Company structure

During the year the Board began a process of reviewing our corporate structure. We have taken input from like-sized **Community Bank®** companies. The Board has to consider how the company should be structured to take us through the next ten years, ensuring our ongoing success. Our company has grown significantly since 2001 and we now have five branches, thirty staff, almost $410 million in footings and a gross turnover of over $4 million. The challenge is to improve all facets of the business and ensure the future is sustainable.

In June we appointed Melissa Vickrage to the position of Company Secretary This will now be a paid position. Melissa was already full time with the company and has many years' experience working for lawyers in a city legal practice.

Other changes through the year were to move Daryl Brooke from Treasurer to Chair of the Strategy Committee and Stephen Bennett to the role of Treasurer.

There have been some changes to the Senior Manager role as explained in his report.

This is a strategic approach to the evolving structure of the company, which will always be a work in progress as we strive to improve the way we do things.

Community strengthening and dividends

We now like to define our contribution to the community as strengthening rather than support. By carefully placing our funds in a way to help promote our business, we can also impact very positively on the community balance sheet. We also assist groups to leverage our contribution to gain funds from other sources. This contribution brings the Company to a total of over $3.4 million since opening our first branch in Hurstbridge in 2001.

In 2013 the company provided $294,000 to various community groups in addition to the funds directed to sponsorship of the **Community Bank** Stadium. This brings to a total of over $3.4 million since opening our first branch in Hurstbridge in 2001.

The Board of Directors have declared a dividend of 3 cents per share - up from 2 cents in 2012. This will provide $128,000 back to shareholders for the year.

Our franchise agreement provides for roughly 80% of our profits being placed with the community. Below is a table showing the contributions we have made to community and the dividends paid since opening our first branch in Hurstbridge in 2001.

Fin Year ended 30 June	Community Dividend	Shareholder Dividend	Total Distributed	Included
2001	Nil	Nil	$0.00	
2002	$9,000.00	Nil	$9,000.00	
2003	$32,000.00	Nil	$32,000.00	
2004	$42,000.00	$43,247.00	$85,247.00	
2005	$84,000.00	$66,533.00	$150,533.00	
2006	$161,814.00	$66,533.00	$228,347.00	
2007	$247,323.00	$86,494.00	$333,817.00	
2008	$373,550.00	$133,068.00	$506,618.00	Stadium
2009	$636,632.00	$168,996.00	$805,628.00	$250,000.00
2010	$322,944.00	$158,464.00	$481,408.00	
2011	$549,193.00	$162,076.00	$711,269.00	$300,000.00
2012	$329,945.00	$81,038.00	$410,983.00	$150,000.00
2013	$594,929.00	$121,557.00	$716,486.00	$300,000.00
Total:	**$3,383,330.00**	**$1,088,006.00**	**$4,471,336.00**	**$1,000,000.00**

Chairman's report (continued)

The great thing is that with community contribution and dividends to our shareholders, almost all the funds stay within our communities.

We are truly delivering on our promise, which is feeding into our communities and not off them. What a great reason for anyone to bank with us.

I hope all our shareholders can see the value in leading by example - bringing your banking business to the branch nearest you.

I would like to thank you the shareholders for the privilege to Chair this great company.

Barry Henwood

Chairman

Senior Manager's report

For year ending 30 June 2013

The 2012/13 financial year has been a period of consolidation and slow growth, influenced greatly by a high Australian dollar, slowing economy and a negative consumer attitude. In our banking world this has been demonstrated by low demand for consumer credit and a strong consumer desire to reduce overall debt loads.

In regard to how our branches grew their businesses, the above influences slowed footings growth and made budget targets difficult to achieve. In an overall company sense, we achieved the following footings growth:

	Budget	**Actual growth**	
Deposits	$22,012,000	$18,426,000	(83.70%)
Lending	$39,531,000	$21,645,000	(54.75%)
Overall	$61,543,000	$40,071,000	(65.11%)

Above figures represent annual growth in Group footings of 10.75% which is line with broader industry results.

This subdued growth has been despite our staff's best efforts to promote our business within our catchment area and beyond.

On a more positive side, our staffing levels have remained static and morale amongst staff appears good with all staff keen to remain involved in the **Community Bank®** concept. Our type of banking is not based on price but on service and how we contribute to the local community. Our staff continue telling our story in their various patches and growth is evident, albeit not as fast as we would like.

In April this year, after some consultation between the Board, Bendigo and Adelaide Bank Limited and myself, the decision was taken to end my role as Group Senior Manager and instead employ me as Group Business Development Manager. The decision was based on the need for us to write as much business as possible and to remove a layer of administration within our structure. I fully agreed with this decision as I believe the Senior Manager's role had basically become outdated. I thank the Board for the ongoing opportunity to work for VCFS Ltd and Bendigo and Adelaide Bank Limited and believe my contribution will be a strong and profitable one.

I also would like to thank all the wonderful staff at VCFS Ltd and Bendigo and Adelaide Bank Limited for their support during my time as Group Senior Manager.

Michael Maloney
Senior Manager

Hurstbridge Manager's report

For year ending 30 June 2013

With the Hurstbridge & Districts **Community Bank®** Branch now in its 12th year of trading, we continue to grow at a pleasing rate given the relatively difficult market conditions in the finance industry and the challenges that we faced over this period.

I have great pleasure in reporting that resulting from this overall growth, Hurstbridge is now sitting at a total book of $200 million as at 30 June 2012, which has increased from $183 million last year.

Again we found that our deposit base has increased whereas our lending book has decreased due to natural attrition and customer downsizing in the area - with business split between $105 million in deposits and $95 million in lending.

The branch continues to grow with the assistance of our loyal customers, residents, local traders, shareholders and sponsored groups and sporting clubs. We continue to build and strengthen our existing relationships by providing courteous, accurate and timely customer service. This in turn has promoted referrals, sales opportunities and has built valuable business relationships. As a branch we have decided to re-establish a more proactive working relationship with our customers and potential customers by providing a "Total Solution Situation" which has and will deepen customer associations.

I would like to acknowledge the efforts of our dedicated staff. The friendly, professional service that they provide is always second to none. I would also like to thank the Board of Directors, our shareholders, administration staff and the Regional Office team for their support over the past year.

I look forward to the challenge of achieving our growth targets for the coming 12 months.

Dion Shirley
Branch Manager

Diamond Creek Manager's report

For year ending 30 June 2013

This year once again has proven to be very challenging, as was expected with the current economic conditions underpinned by interest rates, which played a big part in customers' decisions to invest, borrow or reduce debt. This has been reflected in the slow growth at Diamond Creek **Community Bank®** Branch.

Business slowed in 2013 with overall banking business sitting at $100.241 million. Whilst this is disappointing for our branch, which is now heading into its 10th year, activity was largely governed by uncertainty in the market and people's choice to reduce debt by way of utilising deposit funds. Also the total dollars borrowed was far less than in previous years. In the deposit arena we remain competitive with rates, and I believe our distinct advantage over our competition is the service we provide and the benefits that we create for our local community. Account numbers increased from 4,405 to 4,627, an increase of 222. The banking environment in which we operate remains competitive and the challenge for us lies in, not only retaining our existing base, but attracting new business. Our point of difference and telling our story is becoming more important.

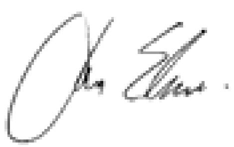
We welcomed two new staff members to our team this year. Justyna Echaust joined the team as our Internal Relief Officer for our five branches, and Lidia Lucisano transferred to us from our Doreen & Mernda **Community Bank®** Branch. Both Lidia and Justyna have provided exceptional customer service since coming on board.

I would like to personally thank my fantastic branch staff, Melinda Tonti, Monica Rae, Heather Hayman, Jo Sandy, Lidia Lucisano, and Justyna Echaust, who have not only supported me in the business but have also provided excellent service to our customers throughout the year. Their commitment to our model and community shines through in their willingness to attend community functions in their own time. Thank you team!

The aim for Diamond Creek **Community Bank®** Branch over the next 12 months will be to increase our growth in both deposits and lending. It won't be easy, but I am confident that with the tools and information that we are provided with by Bendigo and Adelaide Bank, and the commitment and expertise of staff, we will see Diamond Creek **Community Bank®** Branch flourish. Our biggest advantage is "Our Point of Difference" telling our story and creating advocates in the community.

I would like to sincerely thank our Board of Directors for your support and assistance over the last 12 months. To our shareholders and customers, local clubs and community groups I thank you for choosing us as your banker. It's your support that enables us to continue to support you. We are the voice and our story needs to be told at every opportunity to increase awareness throughout the community.

My branch staff and I look forward to another exciting 12 months as we strive to achieve our goals and continue to return our benefits to our local community.



Tina Elmer
Branch Manager

Eltham Manager's report

For year ending 30 June 2013

I am pleased to submit my report for the Eltham & District **Community Bank®** Branch to the 13th Annual General Meeting of the Valley Community Financial Services Limited.

The growth at Eltham & District **Community Bank®** Branch has not been as rapid as first anticipated, however we have still added $8.4 million to our books to finish the year with $49.4 million in total banking business. More than two thirds of this growth was due to our lending portfolio. Throughout the year we welcomed 288 new customers and increased the number of accounts by 431 to reach a total of 2,100.

We appreciated the contribution of Daniel Mathers as Customer Relationship Officer until the end of August 2012 when he took up the post at the relocated Kinglake branch. To take over the position we welcomed Janice Hawkins to the team. Janice had spent the previous six months as our internal Relief Customer Service Officer. Janice has extensive lending experience, excellent relationship skills and has settled in very well. I'd like to thank Daniel and Janice as well as the rest of our staff:

- Karen McDermott – Customer Service Supervisor
- Janine Woolnough – Customer Service Officer
- Annette Austin – Customer Service Officer.

They have each made a valuable contribution to the branch and form a strong and dedicated team.

Over the next 12 months we plan to continue growing our customer base as well as increase the number of products and services our existing customers hold with us. We appreciate the support of our customers who make our significant community contributions possible.

Lastly, I would to also thank all the Directors and administration staff who put in countless hours to ensure the ongoing success of our business and community.

Liam Jones
Branch Manager

Doreen & Mernda Manager's report

For year ending 30 June 2013

The Doreen & Mernda **Community Bank®** Branch has now completed two and half years of trading and I am pleased to report that as at 30 June 2013 the branch footings had reached $30.6 million which was a growth of $11 million for the past financial year, and now has 2,000 customers.

The branch has continued to establish strong connections with both our residential and business communities and local organisations and sporting clubs and is now actively involved in supporting many worthwhile causes within the community.

I would like to thank my dedicated branch team of Sarah Griffiths and Mary Hughes for their hard work and outstanding customer service which has contributed greatly to the continued success and outstanding results the branch has achieved this past year.

I would also like to acknowledge the efforts of Lidia Lucisano who late last year relocated to Diamond Creek **Community Bank®** Branch to take up a part-time position, Naomi Pickford who relocated to Perth and Jenni Sexton who chose to retire from banking after many years of service.

Again, I must thank our hardworking, dedicated Board of Directors, administration staff and my fellow Managers for all the wonderful support and encouragement you have provided and finally to our loyal customers and shareholders – thank you for your continued support and we look forward to another year of branch growth and the return of benefits to our community.

Jennifer Pearson
Branch Manager

Kinglake Manager's report

For year ending 30 June 2013

The fourth year of trading saw the move from a sub-branch to a full branch and new premises in September 2012, which has now allowed us to provide full banking services from Monday to Saturday.

Since September we have seen an increase in business both in deposits and lending, with a total of 982 accounts. This has seen the Kinglake branch increase its business by $7 million with total footings now sitting at $30 million as at 30 June 2013 and lending, with a total of 982 accounts.

While the core client base resides primarily in the Kinglake area, we are expanding our efforts to grow our business in surrounding areas. Through sponsorship of a number of key groups, we are forging stronger local relationships. We continue to consider opportunities to increase our relevance in the Kinglake area

I would like to acknowledge the efforts of the staff and also welcome aboard Liane Dawson to our team as a Customer Service Officer and Daniel Mathers who has transferred from our Doreen Branch to take up the position of Customer Relationship Officer.

I would like to thank the Board of Directors, shareholders and the community for their support over the past 12 months.

The branch continues to obtain pleasing results in difficult conditions and with our range of products and services we are very confident of our ability to continue with positive results in the year ahead.

We look forward to the support of our existing and future customers, and growing awareness by our community so that the Kinglake branch can become a major long-term benefactor to the Kinglake and district community

Dion Shirley
Branch Manager

Bendigo and Adelaide Bank report

For year ending 30 June 2013

This year has marked two very significant milestones for our **Community Bank®** network, celebrating its 15th anniversary of operation while also reaching $100 million in community contributions. Both achievements could not have been accomplished without your ongoing support as shareholders and customers.

The **Community Bank®** network has grown considerably since it was first launched in 1998, in partnership with the people from the western Victorian farming towns of Rupanyup and Minyip. For these communities the **Community Bank®** model was seen as a way to restore branch banking services to the towns, after the last of the major banks closed its services. But in the years since, the **Community Bank®** model has become so much more.

The **Community Bank®** network has returned more than $20 million in contributions to local communities in this financial year alone. Our branches have been able to fund health services, sports programs, aged care facilities, education initiatives, community events and much more.

These contributions have come at a time of continued economic uncertainty, and shows the high level of support the **Community Bank®** model has in the communities in which it operates.

While our established branches grow their business at a healthy rate, demand for the model in other communities continues to be strong. There are currently another 40 **Community Bank®** sites in development, and 15 new branches are expected to open in the next 12 months.

At the end of the financial year 2012/13 the **Community Bank®** network had achieved the following:

- Returns to community – $102 million
- **Community Bank®** branches – 298
- **Community Bank®** branch staff – more than 1,460
- **Community Bank®** company Directors – 1,925
- Banking business – $24.46 billion
- Customers – 640,159
- Shareholders – 72,062
- Dividends paid to shareholders since inception – $30.88 million.

Almost 300 communities have now partnered with Bendigo and Adelaide Bank, to not only enhance banking services, but more importantly take the profits their banking business generates and reinvest it in local groups and projects that will ultimately strengthen their community. This $100 million goes to new community facilities, improved services, more opportunities for community engagement activities and generally speaking, a more prosperous society.

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

In Bendigo and Adelaide Bank, your **Community Bank®** company has a committed and strong partner and over the last financial year our company has continued its solid performance.

Bendigo and Adelaide Bank report (continued)

Bendigo and Adelaide Bank remains one of the few banks globally to be awarded an upgraded credit rating since the onset of the Global Financial Crisis. Our Bank continues to be rated at least “A-” by Standard & Poor’s, Moody’s and Fitch in recognition of its strong performance in the face of what continues to be a challenging economic environment.

While continued ratings affirmation is a welcome boost for the Bank and its partners, trading conditions are still difficult, with consumer confidence and demand for credit remaining low, and competition remaining very strong for retail deposits.

Not surprisingly, these factors continue to place pressure on the 50/50 margin share agreement between the Bank and our **Community Bank®** partners. As a result some **Community Bank®** companies are receiving much more than 50 per cent of revenue earned.

In April, the Bank took a further step to restore this balance, ensuring that the **Community Bank®** model produced a more appropriate balance of return for all stakeholders within this partnership model. The Bank will continue to review this remuneration model to ensure it is fair and equitable for all parties and is as resilient as possible to the fast changing economic environment.

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

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

As **Community Bank®** shareholders you are part of something special, a unique banking movement which has evolved into a whole new way of thinking about banking and the role it plays in modern society.

With the community’s support, there really is no limit to what can be achieved under the **Community Bank®** model, and I look forward to seeing what the next 15 years will bring.

I thank you for your important support of your local **Community Bank®** branch.

Robert Musgrove
Executive Community Engagement

Treasurer's report

For year ending 30 June 2013

Business performance summary

The financial year 2013 has been another year of hard work and consolidation for Valley Community Financial Services Ltd (VCFSL) in a very competitive banking environment, brought about by low consumer confidence and weak demand for credit. Additionally, competition for retail deposits has been extremely high due to the effects of the Global Financial Crisis and global money markets. These factors have led to slower than anticipated growth for VCFSL, but nonetheless, a very solid performance.

To highlight this, the groups' newer branches, Kinglake, Eltham and Doreen & Mernda, all came close to achieving growth budgets, taking them that much closer to becoming profitable in their own right. All three sites are now on track to do so in the next 12 to 18 months. Additionally, all branches continued to grow footings and income, and group expense was kept well within budget. This resulted in the posting of a sound result, a net profit before tax and sponsorship of $597,555, and enabled an increase in sponsorship over the previous financial year.

In October 2012, the Kinglake sub-branch became a fully-fledged, company owned branch and relocated to its current premises. VCFSL borrowed $212,130 for a branch fit-out and increased staffing levels accordingly. Since opening, the branch has grown its footings by some $6 million, and in June 2013, recorded its first profitable month.

In April 2013, Bendigo and Adelaide Bank Limited passed on to VCFSL and other **Community Bank®** branches, a revised margins model, which has cost the group roughly $14,000 per month in margin income. Budgets for the financial year 2014 have been revised accordingly and the Board is monitoring this position carefully.

Key financial data is summarised as follows:

Footings increased by	$39.9 million to $409.7 million	up 10.8%
Income increased by	$435,800 to $4062.3 million	up 12%
Employment costs increased by	$150,300 to $1966.9 million	up 8.3%
Expenses increased by	$283,700 to $3464.7 million	up 8.8%
Total profit increased by	$157,082 to $597,555	up 35.7%
Profit after tax and sponsorship increased by	$29,900 to $205,957	up 17.8%
Sponsorship increased by	$115,000 to $294,900	up 64%
Cash position increased by	$2,200 to $678,347	up 0.3%
Net assets increased by	$124,919 to $2,143,544	up 6.2%
Retained earnings increased by	$124,919 to $87,668	up from ($37,251)
Return on equity (before tax & sponsorship) increased from	21.8% to 27.9%	
Return on equity (after tax & sponsorship) increased from	8.7% to 9.6%	
Cost to income ratio improved from	87.8% to 85.3%	

Treasurer's report (continued)

Key observations are as follows:

- The groups' two longest serving branches, Hurstbridge and Diamond Creek posted healthy profits (before corporate administration expenses and sponsorship) of $1,249,000 and $309,900 respectively.
- Newer sites, Kinglake, Doreen & Mernda and Eltham, collectively enjoyed footings growth of 23.2% against 10.8% for the group, and income growth of 40% against 12% for the group. Additionally, their collective cost to earnings ratio improved from 155% to 132% during the course of Financial Year 2013. Growth in expenses at all three branches has now stabilized, so the continued growth in income will add significantly to the group's performance.
- Income growth of 12% outstripped footings growth of 10.8%, indicating a slight improvement in margins, despite pressures on this key profit determinant from Bendigo and Adelaide Bank limited. "Restoring the Balance" factors passed on to VCFS from April onward cost the group $14,000 per month approximately.
- Employment costs grew by 8.3%, but at a slower rate than that of income growth of 12% indicating a utilization of existing staff capacity.
- Similarly, expenses grew at a slower rate of 8.8%, as compared with income of 12%, demonstrating sound control in this area and a capacity to expand income base without a proportionate increase in expense.
- Net Profit before tax and sponsorship increased by over one third and Return of Equity increased 27.9%.
- Sponsorship increased by over 60%. In addition, **Community Bank®** Stadium sponsorship was completed during the financial year and amounted to $300,000. Total funds distributed to the community were $594,900 for the financial year.

Financial Year 2013 dividend

The Board of Directors has declared a dividend of 3 cents per share payable in October 2013. Total cost of the dividend is $121,556.70. VCFS policy requires that the Finance Committee provides Directors with assurances that all governance requirements for a dividend to be declared have been met.

The three governance areas to be met are:

1. The Company Constitution
2. Corporate Law
3. The Franchise Agreement.

Dividend/Share increased by 1c/share to 3c/share.

Dividend Distribution increased by $40,557 to $121,557 – up 50%.

The Board considers that this is a good result for shareholders to receive a 50% dividend increase given the difficult trading conditions throughout financial year 2013, but also prudent in that the company is well placed financially now, and moreover it's medium and long term financial position is solid.

Stephen Bennett
Treasurer

Directors' report

For the financial year ended 30 June 2013

Your Directors submit their report of the company for the financial year ended 30 June 2013.

Directors

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

Name and position held	Qualifications	Experience and other Directorships
Barry Henwood Chairman Dip Hort. Sci, Grad Dip Acc	Newsagent and Licensed Post Office Proprietor	Member of all committees with the exception of the Audit Committee
Malcolm Hackett OAM Deputy Chair BA Dip. Ed	Retired	Chair of Community Strengthening Committee Chair of Policy & Procedures Committee Member of Strategy Committee and Communications/IT Committee
Ingrid Crichton Director	Retired	Chair of Human Resources Committee Member of Community Strengthening Committee Director of Tyintin Pty Ltd since 2010
Stephen Bennett Treasurer	Winery Proprietor	Chair of Finance Committee Member of Policy & Procedure Committee Chair of Audit Committee
Daryl Brooke Director	Consultant	Member of Audit Committee Chair of Strategy Committee Member of Finance Committee and Policy & Procedures Committee
Hugh Stubley Director DipBus	IT Consulting IT strategy, Investment banking	Member of Strategy Committee Member of Communications/IT Committee
Philip Marendaz Director	Public Accountant	Member of Finance Committee Member of Strategy Committee Member of Audit Committee
Carole Bury Director	Events Co-ordinator	Chair of Events Committee, Member of Finance Committee, Human Resources Committee, Policy & Procedures Committee, Strategy Committee, Community Strengthening Committee & Comm/IT
Carol Jenkinson Director	Community Volunteer	Chair of Marketing Committee Member of Strategy Committee Member of Community Strengthening Committee

Directors (continued)

John Bot Director	Philanthropy Manager	Member of Marketing Committee Member of Strategy Committee Member of Community Strengthening Committee
Lionel Ward Director Appointed: Aug 2012 Resigned: Nov 2012		

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

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

Principal activities

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

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

Review of operations

The profit of the company for the financial year after providing for income tax was $205,957 (2012: $174,789), which is a 17.8% increase as compared with the previous year.

The net assets of the company have increased to $2,143,544 (2012: $2,018,625).

Dividends

	Year ended 30 June 2013	
	Cents per share	**$**
Dividends paid in the year:		
- As recommended in the prior year report	2	81,038

Significant changes in the state of affairs

Bendigo and Adelaide Bank Limited announced that commencing 1 April 2013, two income streams (Term Deposits greater than 90 days and Fixed Rate Home Loans) will have their trailing commission cut from 0.375% to 0.25%. This further reduction in commission rate is expected to have a material effect on the expected revenue and profits of the Company.

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Company that occurred during the financial year under review not otherwise disclosed in this report.

Events subsequent to reporting date

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

Remuneration report

Remuneration policy

The remuneration policy of Valley Community Financial Services Limited has been designed to align key management personnel (KMP) objectives with shareholder and business objectives. The Board believe the remuneration policy to be appropriate and effective.

Key management personnel remuneration

The Board is responsible for the determination of remuneration packages and policies applicable to the Branch Managers and all the staff and believes the remuneration policy to be appropriate and effective to attract and retain the best local Branch management personnel. Remuneration packages, including a performance based bonus package, are reviewed annually by the Human Resources Committee in conjunction with Bendigo and Adelaide Bank Limited through consultation with the Regional Manager. An annual recommendation is subsequently put to the full Board for approval of Key Management remuneration. The Board accepts that Bendigo and Adelaide Bank Limited is responsible for the determination of remuneration packages and policies applicable to seconded branch Managers and all seconded staff.

Key management personnel also receive a superannuation guarantee contribution required by the government legislation, which is currently 9.25%.

The Branch Managers do not participate in decision making that affects the whole or a substantial part of the business, nor do they have the capacity to affect significantly the Company's financial standing. On a rotational basis and by invitation, the Branch Managers attend Board meetings to provide Directors with an overview of their Branch's performance. Both the Business Development Manager, Michael Maloney, and Senior Banking Manager, Dion Shirley, attend Board meetings and participate in decision making that affects the whole or substantial part of the business, but have no voting rights.

As required by sections 300A(1)(ba)(i), (ii), (iii) and (iv) of the Corporations Act 2001, the Business Development Manager and the Senior Banking Manager's role is to develop new and old customer and community relationships, with a primary focus on writing business to a minimum level agreed each year. The focus is on developing relationships with high value clients, both consumer and commercial, with the aim of building a highly profitable, diverse customer portfolio. The remuneration of the Business Development Manager has been split into two parts. The first is a base salary that is not contingent upon Company performance. The second is a bonus the quantum of which is determined by the Human Resources Committee after a review of the performance of the Company and various Key Performance Indicators (KPI). These KPI's are aligned to business growth indicators such as increase of loans, deposits and other business, taking into account the relative returns to the company of each product line. Other KPI's include community engagement and conversion of business from that engagement.

Director remuneration

Remuneration paid to the Directors is not based on Company performance but rather seen as a means to cover expenses incurred by the Directors as they carry out their duties to the Company. At the 2009 Annual General Meeting, shareholders resolved that the Director remuneration allowance be increased to a collective value of $75,000 per annum.

The determination of individual Board member payments were made by the Board after considering the relative workloads involved. Directors could elect to not receive any payments.

Remuneration report (continued)

Remuneration benefits and payments

Other than detailed below, no Director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a Director, a firm which a Director is a member or an entity in which a Director has a substantial financial interest. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the company's accounts, or the fixed salary of a full-time employee of the company, controlled entity or related body corporate.

Office supplies and equipment expenses were paid to Blackburn South Newsagency - an associated entity of Director Barry Henwood. During the year an amount of $7,309 (2012: $6,464), was paid to Blackburn South Newsagency.

Office equipment expenses were paid to Virage IT- an associated entity of Director Hugh Stubley. During the year an amount of $2,993 (2012: $3,289) was paid to Virage IT. Accounting Services expenses were paid to Marendaz Pty Ltd - an associate entity of Director Phil Marendaz. During the year $64,225 (2012: $60,670) was paid to Marendaz Pty Ltd.

Director remuneration for the year ended 30 June 2013:

Name	Position	2013 $	2012 $
Barry Henwood	Chairman	15,000	15,000
Malcolm Hackett OAM	Vice Chairman	7,000	7,000
Ingrid Crichton	Company Secretary	4,000	7,000
Stephen Bennett	Treasurer	5,000	4,000
Daryl Brooke	Director	4,000	7,000
Hugh Stubley	Director	4,000	4,000
Philip Marendaz	Director	4,000	4,000
Carole Bury	Director	7,000	7,000
Carol Jenkinson	Director	4,000	-
John Bot	Director	-	-
Lionel Ward	Director	-	-

The Valley Community Financial Services Limited has elected not to participate in Bendigo and Adelaide Bank Limited's **Community Bank®** Directors Privileges package. Directors have received no benefits based on their personal banking with the branches.

Indemnifying Officers or Auditor

The company has agreed to indemnify each Officer (Director, Secretary or employee) out of assets of the company to the relevant extent against any liability incurred by that person arising out of the discharge of their duties, except where the liability arises out of conduct involving dishonesty, negligence, breach of duty or the lack of good faith. The company also has Officers Insurance for the benefit of Officers of the company against any liability incurred by the Officer, which includes the Officer's liability for legal costs, in or arising out of the conduct of the business of the company or in or arising out of the discharge of the Officer's duties.

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.

Directors' meetings

The number of Directors' meetings held during the year were 14. Attendances by each Director during the year were as follows:

Director	Board meetings*	Audit committee meetings*	Sub committee meetings					
			Community Strengthen-ing	Finance	Policy & Procedures	Human Resources	Strategy	Marketing
Barry Henwood	13 (14)	N/A	N/A	N/A	N/A	4 (4)	N/A	N/A
Malcolm Hackett OAM	13 (14)	N/A	4 (4)	N/A	1 (1)	N/A	3 (3)	N/A
Ingrid Crichton	14 (14)	N/A	4 (4)	N/A	N/A	4 (4)	N/A	N/A
Stephen Bennett	13 (14)	2 (2)	N/A	5 (5)	1 (1)	N/A	N/A	N/A
Daryl Brooke	12 (14)	2 (2)	N/A	5 (5)	1 (1)	N/A	3 (3)	N/A
Hugh Stubley	12 (14)	2 (2)	N/A	N/A	N/A	N/A	3 (3)	1 (3)
Philip Marendaz	13 (14)	N/A	N/A	5 (5)	N/A	N/A	3 (3)	N/A
Carole Bury	13 (14)	N/A	4 (4)	5 (5)	1 (1)	4 (4)	3 (3)	N/A
Carol Jenkinson	14 (14)	N/A	4 (4)	N/A	N/A	N/A	3 (3)	3 (3)
John Bot	9 (14)	N/A	4 (4)	N/A	N/A	N/A	3 (3)	N/A
Lionel Ward	3 (14)	N/A	N/A	N/A	N/A	N/A	N/A	N/A

The first number is the meetings attended while in brackets is the number of meetings eligible to attend.
N/A - not a member of that Committee.

Likely developments

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

Environmental regulations

The company is not subject to any significant environmental regulation. However, the Board believes that the company has adequate systems in place for the management of its environment requirements and is not aware of any breach of these environmental requirements as they apply to the company.

Proceedings on behalf of company

No person has applied for leave of court to bring proceedings on behalf of the company or 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 any part of those proceedings. The company was not a party to any such proceedings during the year.

Company Secretary

The Company Secretary is Melissa Vickrage who was appointed to the position on 24 May 2013. Melissa has a strong legal background and has worked for many years as a Legal Assistant/Paralegal with a major Melbourne law firm. In this varied role, Melissa's duties were company incorporations, running the firm's Company Registers, and being part of a team of lawyers including 3 Tax Partners. Melissa brings to the Company Secretary role her strong organisational skills and a wealth of knowledge relating to relevant legislation and corporate governance. Melissa Vickrage does not hold a Director position in the Company and has been employed by the Company since May 2010.

Company Treasurer

Daryl Brooke resigned as Treasurer on 28 February 2013. The Board appreciates Daryl's contribution during his time in this role. Daryl continues as a Director on the Board. Stephen Bennett was appointed as Treasurer on 28 February 2013. Stephen enjoyed a career spanning 15 years in banking before becoming an owner of a local winery. He became a Director in 2008 and brings his wealth of banking and small business experience to the Company.

Non audit services

The Directors in accordance with advice from the audit committee, are satisfied that the provision of non audit services during the year is compatible with the general standard of independence for Auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed in Note 5 did not compromise the external Auditor's independence for the following reasons:

- all non audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the Auditor; and
- the nature of the services provided does not compromise the general principles relating to Auditor independence in accordance with APES 110 "Code of Ethics for Professional Accountants" set by the Accounting Professional and Ethical Standards Board.

Auditor independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set at page 21 of this financial report. No Officer of the company is or has been a partner of the Auditor of the company.

Signed in accordance with a resolution of the Board of Directors at Diamond Creek on 11 September 2013.

Barry Henwood
Director

Auditor's independence declaration

Richmond Sinnott & Delahunty
Chartered Accountants

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Email: rsd@rsdadvisors.com.au
www.rsdadvisors.com.au

11 September 2013

The Directors
Valley Community Financial Services Limited
808 Main Road
HURSTBRIDGE VIC 3099

Dear Directors

To the Directors of Valley Community Financial Services Limited

Auditor's Independence Declaration under section 307C of the Corporations Act 2001

I declare that to the best of my knowledge and belief, during the year ended 30 June 2013 there has been:

(i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

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

Philip P. Delahunty
Partner
Richmond Sinnott & Delahunty

Richmond Sinnott & Delahunty
ABN 60 616 244 309
Liability limited by a scheme approved under Professional Standards Legislation

Partners:
Warren Sinnott, Cara Hall, Brett Andrews, Philip Delahunty, Kathie Teasdale, David Richmond

Financial statements

Statement of profit or loss and other comprehensive income for the year ended 30 June 2013

	Note	2013 $	2012 $
Revenue	2	4,062,274	3,626,530
Employee benefits expense	3	(1,966,953)	(1,816,269)
Depreciation and amortisation expense	3	(207,561)	(162,067)
Finance costs	3	(8,352)	(2,458)
Bad and doubtful debts expense	3	(2,419)	(2,722)
Advertising and marketing		(101,327)	(77,569)
Other expenses		(1,178,107)	(1,124,972)
Operating profit before charitable donations & sponsorships		**597,555**	**440,473**
Charitable donations and sponsorships		(294,929)	(179,945)
Profit before income tax expense		**302,626**	**260,528**
Tax expense	4	(96,669)	(85,739)
Profit for the year		**205,957**	**174,789**
Other comprehensive income		-	-
Total comprehensive income		**205,957**	**174,789**
Profit attributable to:			
Members of the company		-	-
Total		**205,957**	**174,789**
Earnings per share (cents per share)			
- basic for profit for the year	21	5.08	4.31
- diluted for profit for the year	21	5.08	4.31

The accompanying notes form part of these financial statements.

Statement of financial position as at 30 June 2013

	Note	2013 $	2012 $
Assets			
Current assets			
Cash and cash equivalents	6	678,347	676,104
Trade and other receivables	7	313,732	295,765
Total current assets		**992,079**	**971,869**
Non-current assets			
Property, plant and equipment	8	888,714	804,242
Deferred tax asset	4	42,858	40,736
Intangible assets	9	777,810	908,564
Total non-current assets		**1,709,382**	**1,753,542**
Total assets		**2,701,461**	**2,725,411**
Liabilities			
Current liabilities			
Trade and other payables	10	169,496	523,071
Borrowings	11	33,432	8,580
Provisions	12	142,859	125,630
Total current liabilities		**345,787**	**657,281**
Non current liabilities			
Borrowings	11	212,130	49,505
Total non current liabilities		**212,130**	**49,505**
Total liabilities		**557,917**	**706,786**
Net assets		**2,143,544**	**2,018,625**
Equity			
Issued capital	13	2,055,876	2,055,876
Retained earnings / (accumulated losses)	14	87,668	(37,251)
Total equity		**2,143,544**	**2,018,625**

The accompanying notes form part of these financial statements.

Statement of changes in equity for the year ended 30 June 2013

	Note	Issued Capital $	Retained Earnings $	Total Equity $
Balance at 1 July 2011		**2,055,876**	**(49,964)**	**2,005,912**
Total comprehensive income for the year		-	174,789	174,789
Transactions with owners, in their capacity as owners				
Shares issued during the year		-	-	-
Dividends paid or provided	22(a)	-	(162,076)	(162,076)
Balance at 30 June 2012		**2,055,876**	**(37,251)**	**2,018,625**
Balance at 1 July 2012		**2,055,876**	**(37,251)**	**2,018,625**
Total comprehensive income for the year		-	205,957	205,957
Transactions with owners, in their capacity as owners				
Shares issued during the year		-	-	-
Dividends paid or provided	22(a)	-	(81,038)	(81,038)
Balance at 30 June 2013		**2,055,876**	**87,668**	**2,143,544**

The accompanying notes form part of these financial statements.

Statement of cash flows for the year ended 30 June 2013

	Note	2013 $	2012 $
Cash flows from operating activities			
Receipts from clients		3,617,940	2,977,733
Payments to suppliers and employees		(3,154,611)	(2,528,138)
Income tax refund / (paid)		(95,442)	(85,739)
Interest paid		(8,352)	(2,325)
Interest received		21,108	29,458
Net cash flows from/(used in) operating activities	**15b**	**380,643**	**390,989**
Cash flows from investing activities			
Purchase of property, plant & equipment		(184,839)	(64,648)
Purchase of intangible assets		(300,000)	(150,000)
Net cash flows from/(used in) investing activities		**(484,839)**	**(214,648)**
Cash flows from financing activities			
Dividends paid		(81,038)	(162,076)
Proceeds from borrowings		187,477	58,085
Net cash flows from/(used in) financing activities		**106,439**	**(103,991)**
Net increase/(decrease) in cash held		**2,243**	**72,350**
Cash and cash equivalents at start of year		676,104	603,754
Cash and cash equivalents at end of year	**15a**	**678,347**	**676,104**

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2013

The financial statements and notes represent those of Valley Community Financial Services Limited.

Valley Community Financial Services Limited ('the company') is a company limited by shares, incorporated and domiciled in Australia.

The financial statements were authorised for issue by the Directors on 11 September 2013.

Note 1. Summary of significant accounting policies

(a) Basis of preparation

The financial statements are general purpose financial statements, that have been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) of the Australian Accounting Standards Board and the Corporations Act 2001. The company is a for profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the Australian Accounting Standards Board has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards (IFRS). Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless stated otherwise.

The financial statements, except for cash flow information, have been prepared on an accruals basis and are based on historical costs, modified, were applicable, by the measurement at fair value of selected non current assets, financial assets and financial liabilities.

(b) Income tax

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled.

(c) Property, plant and equipment

Property, plant and equipment are brought to account at cost less accumulated depreciation and any impairment in value.

Note 1. Summary of significant accounting policies (continued)

(c) Property, plant and equipment (continued)

Land and buildings are measured at fair value less accumulated depreciation.

Depreciation is calculated on a straight line basis over the estimated useful life of the asset as follows:

Class of asset	Depreciation rate
Buildings	2.5-15%
Computers	40%
Plant & equipment	5-37.5%

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater 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.

Revaluations

Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

Fair value is determined by reference to market based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

(d) Impairment of assets

At each reporting date, the company assesses whether there is any indication that an asset is impaired. Where an indicator of impairment exists, the company makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

(e) 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 Australian Taxation Office (ATO). 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 inclusive of the amount of GST receivable or payable.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the Statement of Financial Position. Cash flows are presented on a gross basis.

The GST components of investing and financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

(f) Employee benefits

Provision is made for the company's liability for employee benefits arising from the services rendered by employees to the end of the reporting period. 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. 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. In determining the liability, consideration is given to employee wage increases and the probability that the employee may not satisfy any vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows attributable to the employee benefits.

(g) Intangibles

Establishment costs have been initially recorded at cost and amortised on a straight line basis at a rate of 20% per annum. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the Statement of Comprehensive Income.

(h) Cash

Cash on hand and in banks are stated at nominal value. Bank overdrafts are shown as short term borrowings in current liabilities in the statement of financial position.

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.

(i) Revenue

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Revenue comprises service commissions and other income received by the company.

Interest and fee revenue is recognised when earned. All revenue is stated net of the amount of goods and services tax (GST).

(j) Receivables and payables

Receivables and payables are non interest bearing and generally have payment terms of between 30 and 90 days. Receivables expected to be collected within 12 months at the end of the reporting period are classified as current assets. Receivables are recognised and carried at original invoice amount less a provision for any uncollected debts. 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 and are recognised as a current liability.

(k) New accounting standards and interpretations not yet adopted

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the company.

The company has decided not to early adopt any of the new and amended pronouncements. The company's assessment of the new and amended pronouncements that are relevant to the company but applicable in the future reporting periods is set below:

Note 1. Summary of significant accounting policies (continued)

(k) New accounting standards and interpretations not yet adopted (continued)

(i) AASB 9 Financial Instruments (2010), AASB 9 Financial Instruments (2009)

AASB 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under AASB 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. AASB 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project that may result in limited amendments to the classification and measurement requirements of AASB 9 and add new requirements to address the impairment of financial assets and hedge accounting.

AASB 9 (2010 and 2009) are effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The adoption of AASB 9 (2010) is not expected to have an impact on the company's financial assets or financial liabilities.

(ii) AASB 13 Fair Value Measurement (2011)

AASB 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout Australian Accounting Standards. Subject to limited exceptions, AASB 13 is applied when fair value measurements or disclosures are required or permitted by other AASBs. The company is currently reviewing its methodologies in determining fair values. AASB 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

(iii) AASB 119 Employee Benefits (2011)

AASB 119 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. For defined benefit plans, removal of the accounting policy choice for recognition of actuarial gains and losses is not expected to have any impact on the company. However, the company may need to assess the impact of the change in measurement principles of expected return on plan assets. AASB 119 (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

(l) Loans and borrowings

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

(m) Provisions

Provisions are recognised when the company has a legal or constructive obligation, as a result of past events, for which is probable that the outflow of economic benefits will result and the outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

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) Share capital

Issued and paid up capital is 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) Comparative figures

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

Note 1. Summary of significant accounting policies (continued)

(p) Critical accounting estimates and judgements

The Directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company. Estimates and judgements are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The estimates and judgements that have a significant risk of causing material adjustments to the carrying values of assets and liabilities are as follows:

Estimation of useful lives of assets

The company determines the estimated useful lives and related depreciation and amortisation changes for its property, plant and equipment and intangible assets. The depreciation and amortisation charge will increase where useful lives are less than previously estimated lives.

Income tax

The company is subject to income tax. Significant judgement is required in determining the deferred tax asset or the provision for income tax liability. Deferred tax assets are recognised only when it is considered sufficient future profits will be generated. The assumptions made regarding future profits is based on the company's assessment of future cash flows.

Impairment

The company assesses impairment at the end of each reporting period by calculating conditions and events specific to the company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value in use calculations which incorporate various key assumptions.

(q) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sell the asset (ie trade date accounting is adopted). Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to the profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method or cost.

Fair value represents the amount for which an asset would be exchanged or a liability settled, between knowledgeable willing parties. Where available quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are applied to determine the fair value. Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less repayments and any reduction for impairment and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

Note 1. Summary of significant accounting policies (continued)

(q) Financial instruments (continued)

(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. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(ii) Financial liabilities

Non derivative financial liabilities are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Impairment

At the end of each reporting period, the company assesses whether there is objective evidence that a financial asset has been impaired. A financial asset is deemed to be impaired if and only if, there is objective evidence of impairment as a result of one or more events (a loss event) having occurred, which has an impact on the estimated future cash flows of the financial asset. In the case of financial assets carried at amortised cost, loss events may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in payments, indications that they will enter bankruptcy or other financial reorganisation and changes in arrears or economic conditions that correlate with defaults.

Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to receipt of cash flows expire 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. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

	2013 $	2012 $
Note 2. Revenue and other income		
Revenue		
- services commissions	4,027,089	3,597,072
	4,027,089	**3,597,072**
Other revenue		
- interest received	21,108	29,458
- other revenue	14,077	-
	35,185	**29,458**
Total revenue	**4,062,274**	**3,626,530**

	2013 $	2012 $

Note 3. Expenses

	2013 $	2012 $
Employee benefits expense		
- wages and salaries	1,633,640	1,481,486
- superannuation costs	141,176	129,884
- workers' compensation costs	1,848	1,209
- other costs	190,289	203,690
	1,966,953	**1,816,269**
Depreciation of non-current assets:		
- plant and equipment	54,416	64,979
- leasehold improvements	22,391	16,114
Amortisation of non-current assets:		
- franchise fee / start up costs	55,754	55,906
- stadium naming rights	75,000	25,068
	207,561	**162,067**
Finance costs:		
- Interest paid	8,352	2,458
Bad debts	2,419	2,722

Note 4. Tax expense

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

	2013 $	2012 $
Prima facie tax on profit/(loss) before income tax at 30% (2012: 30%)	90,787	78,158
Add tax effect of:		
- Movement in deferred tax asset	(2,122)	3,047
- Utilisation of previously unrecognised carried forward tax losses	-	-
- Non-deductible expenses	8,004	4,534
Current income tax expense	**96,669**	**85,739**
Income tax attributable to the entity	**96,669**	**85,739**
The applicable weighted average effective tax rate is	31.94%	32.91%
Deferred tax asset		
Future income tax benefits are recognised at reporting date as realisation of the benefit is regarded as probable.	**42,858**	**40,736**

The applicable income tax rate is the Australian Federal tax rate of 30% (2012: 30%) applicable to Australian resident companies.

	2013 $	2012 $

Note 5. Auditors' remuneration

Remuneration of the Auditor for:

	2013 $	2012 $
- Audit or review of the financial report	4,150	3,900
- Share registry services	6,261	6,044
	10,411	**9,944**

Note 6. Cash and cash equivalents

	2013 $	2012 $
Cash at bank and on hand	**678,347**	**676,104**

Note 7. Trade and other receivables

Current

	2013 $	2012 $
Commission receivable	297,288	295,765
Other assets	16,444	-
	313,732	**295,765**

Credit risk

The company has no significant concentration of credit risk with respect to any single counterparty or company of counterparties.

The following table details the company's trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as "past due" when the debt has not been settled within the terms and conditions agreed between the company and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the company.

The balances of receivables that remain within initial trade terms (as detailed in the table below) are considered to be high credit quality.

	Gross amount	Past due and impaired	Past due but not impaired			Not past due
			< 30 days	31-60 days	> 60 days	
2013						
Trade receivables	297,288	-	-	-	-	297,288
Other receivables	-	-	-	-	-	-
Total	**297,288**	**-**	**-**	**-**	**-**	**297,288**

Note 7. Trade and other receivables (continued)

Credit risk (continued)

	Gross amount	Past due and impaired	Past due but not impaired			Not past due
			< 30 days	31-60 days	> 60 days	
2012						
Trade receivables	295,765	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Total	**295,765**	**-**	**-**	**-**	**-**	**-**

Note 8. Property, plant and equipment

	2013 $	2012 $
Plant and equipment		
At cost	533,595	504,981
Less accumulated depreciation	(352,023)	(297,607)
	181,572	**207,374**
Leasehold Improvements		
At cost	789,610	658,963
Less accumulated depreciation	(82,468)	(62,095)
	707,142	**596,868**
Total written down amount	**888,714**	**804,242**
Movements in carrying amounts		
Plant and equipment		
Balance at the beginning of the reporting period	207,374	249,962
Additions	28,614	22,391
Disposals	-	-
Depreciation expense	(54,416)	(64,979)
Balance at the end of the reporting period	**181,572**	**207,374**
Leasehold improvements		
Balance at the beginning of the reporting period	596,868	570,725
Additions	156,225	42,257
Disposals	(23,560)	-
Depreciation expense	(22,391)	(16,114)
Balance at the end of the reporting period	**707,142**	**596,868**

	2013 $	2012 $

Note 9. Intangible assets

	2013 $	2012 $
Franchise fee / start up costs		
At cost	383,647	383,647
Less accumulated amortisation	(255,769)	(200,015)
	127,878	**183,632**
Community Bank® Stadium naming rights		
At cost	750,000	750,000
Less accumulated amortisation	(100,068)	(25,068)
	649,932	**724,932**
	777,810	**908,564**
Movements in carrying amounts		
Franchise fee / start up costs		
Balance at the beginning of the reporting period	183,632	239,538
Additions	-	-
Disposals	-	-
Amortisation expense	(55,754)	(55,906)
Balance at the end of the reporting period	**127,878**	**183,632**
Community Bank® Stadium naming rights		
Balance at the beginning of the reporting period	724,932	-
Additions	-	750,000
Disposals	-	-
Amortisation expense	(75,000)	(25,068)
Balance at the end of the reporting period	**649,932**	**724,932**

Note 10. Trade and other payables

	2013 $	2012 $
Current		
Unsecured liabilities:		
Trade creditors	145,121	206,350
Accured other expenses	24,375	316,721
	169,496	**523,071**

Notes to the financial statements (continued)

	2013 $	2012 $
Note 11. Borrowings		
Current borrowings	33,432	8,580
Non-current borrowings	212,130	49,505
	245,562	**58,085**

Note 12. Provisions

	2013 $	2012 $
Employee benefits	**142,859**	**125,630**
Movement in employee benefits		
Opening balance	125,630	115,162
Additional provisions recognised	136,183	113,960
Amounts utilised during the year	(118,954)	(103,492)
Closing balance	**142,859**	**125,630**
Current		
Annual Leave	96,034	89,382
	96,034	**89,382**
Non-current		
Long-service leave	46,825	36,243
	46,825	**36,243**
Total provisions	**142,859**	**125,625**

Provision for employee benefits

Provision for employee benefits represents amounts accrued for annual leave and long service leave.

The current portion for this provision includes the total amount accrued for annual leave entitlements and the amounts accrued for long service leave entitlements that have vested due to employees having completed the required period of service. Based on past experience the company does not expect the full amount of annual leave or long service leave balances classified as current liabilities to be settled within the next 12 months. However, these amounts must be classified as current liabilities since the company does not have an unconditional right to defer the settlement of these amounts in the event employees wish to use their leave entitlement.

The non-current portion for this provision includes amounts accrued for long service leave entitlements that have not yet vested in relation to those employees who have not yet completed the required period of service.

	2013 $	2012 $

Note 13. Share capital

	2013 $	2012 $
665,338 Ordinary shares fully paid @ $1 each	665,338	665,338
3 for 1 Bonus issue shares (1,996,014) at no consideration	-	-
1,390,538 Ordinary shares fully paid @ $1 each	1,390,538	1,390,538
Less: Equity raising costs	-	-
	2,055,876	**2,055,876**

Ordinary shares participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held. At the shareholders' meetings each shareholder is entitled to one vote when a poll is called, or on a show of hands.

The company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. All shares rank equally with regard to the company's residual assets.

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 Statement of Financial Position.

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

(i) the Distribution Limit is the greater of:

(a) 20% of the profit or funds of the Franchisee otherwise available for distribution to shareholders in that 12 month period; and

(b) subject to the availability of distributable profits, the Relevant Rate of Return multiplied by the average level of share capital of the Franchisee over that 12 month period; and

(ii) the Relevant Rate of Return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period plus 5%.

The Board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the year ended 30 June 2013 can be seen in the Statement of Profit or Loss and Other Comprehensive Income. There were no changes in the company's approach to capital management during the year.

Note 14. Retained earnings / (accumulated losses)

	2013 $	2012 $
Balance at the beginning of the reporting period	(37,251)	(49,964)
Profit/(loss) after income tax	205,957	174,789
Dividends	(81,038)	(162,076)
Balance at the end of the reporting period	**87,668**	**(37,251)**

Note 15. Statement of cash flows

	2013 $	2012 $
(a) Cash and cash equivalents balances as shown in the statement of financial position can be reconciled to that shown in the statement of cash flows as follows		
As per the statement of financial position	678,347	676,104
less Bank overdraft	-	-
As per the statement of cash flow	**678,347**	**676,104**
(b) Reconciliation of profit / (loss) after tax to net cash provided from/(used in) operating activities		
Profit / (loss) after income tax	205,957	174,789
Cash flows excluded from profit attirbutable to operating activities:		
- Purchase of intangible assets previously expensed	300,000	150,000
Non cash items		
- Depreciation	76,807	81,093
- Amortisation	130,754	80,974
- Write off of assets	23,560	-
Changes in assets and liabilities		
- (Increase) decrease in receivables	(17,967)	(83,356)
- (Increase) decrease in deferred tax asset	(2,122)	-
- Increase (decrease) in payables	(353,575)	(22,979)
- Increase (decrease) in provisions	17,229	10,468
Net cash flows from/(used in) operating activities	**380,643**	**390,989**

(c) Credit standby arrangement and loan facilities

The company does not have a bank overdraft or commercial bill facility in place at 30 June 2013 (2012: $0)

Note 16. Related party transactions

The company's main related parties are as follows:

(a) Key management personnel

Any person(s) having authority or responsibility for planning, directing or controlling the activities of the entity, directly or indirectly including any Director (whether executive or otherwise) of that company is considered key management personnel.

(b) Other related parties

Other related parties include close family members of key management personnel and entities that are controlled or jointly controlled by those key management personnel, individually or collectively with their close family members.

Note 16. Related party transactions (continued)

(c) Transactions with key management personnel and related parties

Other than detailed below, no key management personnel or related party has entered into any contracts with the company. No Director fees have been paid as the positions are held on a voluntary basis. Office supplies and equipment expenses were paid to Blackburn South Newsagency - an associated entity of Director Barry Henwood. During the year an amount of $7,309 (2012: $6,464), was paid to Blackburn South Newsagency.

Office equipment expenses were paid to Virage IT- an associated entity of Director Hugh Stubley. During the year an amount of $2,993 (2012: $3,289) was paid to Virage IT.

Accounting Services expenses were paid to Marendaz Pty Ltd - an associate entity of Director Phil Marendaz. During the year $64,225 (2012: $60,670) was paid to Marendaz Pty Ltd.

Director Remuneration for the year ended 30 June 2013:

Name	Position	2013 $	2012 $
Barry Henwood	Chairman	15,000	15,000
Malcolm Hackett OAM	Vice Chairman	7,000	7,000
Ingrid Crichton	Company Secretary	4,000	7,000
Stephen Bennett	Treasurer	5,000	4,000
Daryl Brooke	Director	4,000	7,000
Hugh Stubley	Director	4,000	4,000
Philip Marendaz	Director	4,000	4,000
Carole Bury	Director	7,000	7,000
Carol Jenkinson	Director	4,000	-
John Bot	Director	-	-
Lionel Ward	Director	-	-

The Valley Community Financial Services Limited has elected not to participate in Bendigo and Adelaide Bank Limited's **Community Bank®** Directors Privileges package. Directors have received no benefits based on their personal banking with the branches.

Note 16. Related party transactions (continued)

(d) Key management personnel shareholdings

The number of ordinary shares in Valley Community Financial Services Limited held by each key management personnel of the company during the financial year is as follows:

	2013	2012
Barry Henwood	11,000	11,000
Malcolm Hackett OAM	20,000	20,000
Ingrid Crichton	5,000	5,000
Stephen Bennett	-	-
Daryl Brooke	7,000	7,000
Hugh Stubley	4,000	4,000
Philip Marendaz	5,000	5,000
Carole Bury	5,000	5,000
Carol Jenkinson	-	-
John Bot	-	-
Lionel Ward	-	-

There was no movement in key management personnel shareholdings during the year. Each share held has a paid up value of $1 and is fully paid.

(e) Other key management transactions

There has been no other transactions involving equity instruments other than those described above.

Note 17. Events after the reporting period

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

Note 18. Contingent liabilities and assets

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

Note 19. Operating segments

The company operates in the financial services sector where it provides banking services to its clients. The company operates within the Shires of Nillumbik, Whittlesea and Murrundindi, Victoria. The company has a franchise agreement in place with Bendigo and Adelaide Bank Limited who account for 100% of the revenue (2012: 100%).

Note 20. Company details

The registered office of the Company is: 8B 75/77 Main Hurstbridge Road
Diamond Creek VIC 3089

The principal places of business are:

808 Main Road
Hurstbridge VIC 3099

Shop 8
75/77 Main Hurstbridge Road
Diamond Creek VIC 3089

Shop 4, 1 Victoria Road
Kinglake VIC 3763

Shop 3, 101 Hazel Glen Drive
Doreen VIC 3754

1036 Main Road
Eltham VIC 3095

	2013 $	2012 $

Note 21. Earnings per share

Basic earnings per share amounts are calculated by dividing profit / (loss) after income tax by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing profit / (loss) after income tax by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of any dilutive options or preference shares).

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2013 $	2012 $
Profit/(loss) after income tax expense	**205,957**	**174,789**
Weighted average number of ordinary shares for basic and diluted earnings per share	**4,051,890**	**4,051,890**

Note 22. Dividends paid or provided for on ordinary shares

	2013 $	2012 $
(a) Dividends paid during the year		
Franked dividends - 2.00 cents per share (2012: 4.00 cents per share)	**81,038**	**162,076**
(b) Dividends proposed and not recognised as a liability		
Franked dividends - 0.03 cents per share (2012: 0.00 cents per share)	**121,557**	**-**

	2013 $	2012 $

Note 22. Dividends paid or provided for on ordinary shares (continued)

(c) Franking credit balance

	2013 $	2012 $
The amount of franking credits available for the subsequent financial year are:		
- Franking account balance as at the end of the financial year	220,188	106,820
- Franking credits that will arise from the payment/(refund) of income tax payable/(refundable) as at the end of the financial year	56,036	52,686
	276,224	**159,506**

The tax rate at which dividends have been franked is 30% (2012: 30%).

Note 23. Financial risk management

The company's financial instruments consist mainly of deposits with banks, account receivables and payables, bank overdraft and loans. The totals for each category of financial instruments measured in accordance with AASB 139 as detailed in the accounting policies are as follows:

	Note	2013 $	2012 $
Financial assets			
Cash & cash equivalents	6	678,347	676,104
Trade and other receivables	7	313,732	295,765
Total financial assets		**992,079**	**971,869**
Financial liabilities			
Trade and other payables	10	169,496	523,071
Borrowings	11	245,562	58,085
Total financial liabilities		**415,058**	**581,156**

Financial risk management policies

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established an Audit Committee which reports regularly to the Board. The Audit Committee is assisted in the area of risk management by an internal audit function.

Specific financial risk exposure and management

The company has exposure to credit risk, liquidity risk and market risk from their use of financial instruments. There have been no substantive changes in the types of risks the company is exposed to, how the risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous period.

(a) Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. For the company it arises from receivables and cash assets.

Note 23. Financial risk management (continued)

(a) Credit risk (continued)

Credit risk is managed through maintaining procedures that ensure, to the extent possible, that clients and counterparties to transactions are of sound credit worthiness and their financial stability is monitored and assessed on a regular basis. Such monitoring is used in assessing receivables for impairment. Credit terms for normal fee income are generally 30 days from the date of invoice. For fees with longer settlements, terms are specified in the individual client contracts. In the case of loans advanced, the terms are specific to each loan.

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period is equivalent to the carrying amount and classification of those financial assets as presented in the statement of financial position.

The company's exposure to credit risk is limited to Australia by geographic area. The majority of receivables are due from Bendigo and Adelaide Bank Limited.

None of the assets of the company are past due (2012: nil past due) and based on historic default rates, the company believes that no impairment allowance is necessary in respect of assets not past due. The company limits its exposure to credit risk by only investing in liquid securities with Bendigo and Adelaide Bank Limited and therefore credit risk is considered minimal.

	2013 $	2012 $
Cash and cash equivalents:		
A rated	**678,347**	**676,104**

(b) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company ensures it will have enough liquidity to meet its liabilities when due under both normal and stressed conditions. Liquidity management is carried out within the guidelines set by the Board.

Typically, the company maintains sufficient cash on hand to meet expected operational expenses, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The company does not have an overdraft facility with Bendigo and Adelaide Bank Limited.

Note 23. Financial risk management (continued)

(b) Liquidity risk (continued)

Financial liability and financial asset maturity analysis:

	Note	Total $	Within 1 year $	1 to 5 years $	Over 5 years $
30 June 2013					
Financial liabilities due					
Trade and other payables	10	169,496	169,496	–	–
Loans and borrowings	11	245,562	33,432	212,130	–
Total expected outflows		**415,058**	**202,928**	**212,130**	**–**
Financial assets - realisable					
Cash & cash equivalents	6	678,347	678,347	–	–
Trade and other receivables	7	313,732	313,732	–	–
Total anticipated inflows		**992,079**	**992,079**	**–**	**–**
Net (outflow)/inflow financial instruments		**577,021**	**789,151**	**(212,130)**	**–**

	Note	Total $	Within 1 year $	1 to 5 years $	Over 5 years $
30 June 2012					
Financial liabilities due					
Trade and other payables	10	523,071	523,071	–	–
Loans and borrowings	11	58,085	8,580	49,505	–
Total expected outflows		**581,156**	**531,651**	**49,505**	**–**
Financial assets - realisable					
Cash & cash equivalents	6	676,104	676,104	–	–
Trade and other receivables	7	295,765	295,765	–	–
Total anticipated inflows		**971,869**	**971,869**	**–**	**–**
Net (outflow)/inflow financial instruments		**390,713**	**440,218**	**(49,505)**	**–**

Note 23. Financial risk management (continued)

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company reviews the exposure to interest rate risk as part of the regular Board meetings.

The weighted average interest rates of the company's interest-bearing financial assets are as follows:

Financial assets	2013 %	2012 %
Cash and cash equivalents (net of bank overdrafts)	4.05%	5.22%

Sensitivity analysis

The following table illustrates sensitivities to the company's exposures to changes in interest rates and equity prices. The table indicates the impact on how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variable that management considers to be reasonably possible.

These sensitivities assume that the movement in a particular variable is independent of other variables.

	Profit $	Equity $
Year ended 30 June 2013		
+/- 1% in interest rates (interest income)	4,328	4,328
	4,328	**4,328**
Year ended 30 June 2012		
+/- 1% in interest rates (interest income)	6,180	6,180
	6,180	**6,180**

The company has no exposure to fluctuations in foreign currency.

(d) Price risk

The company is not exposed to any material price risk.

Fair values

The fair values of financial assets and liabilities approximate the carrying values as disclosed in the Statement of Financial Position. Fair value is the amount at which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction. The company does not have any unrecognised financial instruments at year end.

Directors' declaration

In accordance with a resolution of the Directors of Valley Community Financial Services Limited, the Directors of the company declare that:

1 the financial statements and notes of the company as set out on pages 22 to 45 are in accordance with the Corporations Act 2001 and:

   (i) comply with Australian Accounting Standards, which as stated in accounting policy Note 1(a) to the financial statements constitutes compliance with International Financial Reporting Standards (IFRS); and

   (ii) give a true and fair view of the company's financial position as at 30 June 2013 and of the performance for the year ended on that date;

2 in the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This resolution is made in accordance with a resolution of the Board of Directors.

Barry Henwood
Director

Signed at Diamond Creek on 11 September 2013.

Independent audit report

Richmond Sinnott & Delahunty
Chartered Accountants

Level 2, 10-16 Forest Street
Bendigo, Victoria
PO Box 30, Bendigo, VIC 3552

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Email: rsd@rsdadvisors.com.au
www.rsdadvisors.com.au

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VALLEY COMMUNITY FINANCIAL SERVICES LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Valley Community Financial Services Limited, which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the entity comprising the company and the entities it controlled at the year's end.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards (IFRS).

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's 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, the auditor considers internal control relevant to the company's preparation 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 company'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.

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

Independent audit report (continued)

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Valley Community Financial Services Limited, would be in the same terms if provided to the directors as at the time of this auditor's report.

Auditor's Opinion on the Financial Report

In our opinion:

(a) the financial report of Valley Community Financial Services Limited is 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 2013 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the financial report also complies with the International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express and opinion on the remuneration report, based on out audit conducted in accordance with Australian Accounting Standards.

Auditor's Opinion

In our opinion, the remuneration report of Valley Community Financial Services Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

RICHMOND SINNOTT & DELAHUNTY
Chartered Accountants

P. P. Delahunty
Partner
Dated at Bendigo, 11 September 2013

NSX report

Valley Community Financial Services Limited is a public company incorporated in Australia and listed on the National Stock Exchange of Australia (NSX).

Shareholding

The following table shows the number of shareholders as at 12 August 2013, broken into various categories showing the total number of shares held.

Number of shares held	Number of shareholders	Number of shares held
1 to 1,000	125	94,850
1,001 to 5,000	349	1,088,667
5,001 to 10,000	86	720,300
10,001 to 100,000	77	2,148,073
100,001 and over	Nil	Nil
Total shareholders	**637**	**4,051,890**

Equity securities

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

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

There are 5 shareholders holding less than a marketable parcel of shares ($500 in value).

There are no restricted securities on issue.

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

Ten largest shareholders

The following table shows the 10 largest shareholders.

Shareholder	Number of fully paid shares held	Percentage of issued capital
CE & DG Lance ATF Lance Super Fund	90,000	2.20%
Graham Dryden & Clare Dryden	90,000	2.20%
Walter H Mott	75,000	1.80%
Brian Stevens & Elizabeth Stevens	70,000	1.70%
Dale Trezise	65,000	1.60%
Neil Trezise	65,000	1.60%
A Jupp ATF Trash N Stash Super Fund	60,000	1.40%
Beverley Joan Mitchell	60,000	1.40%

Ten largest shareholders (continued)

Shareholder	Number of fully paid shares held	Percentage of issued capital
Bruce Donelly	60,000	1.40%
Harold Charles Mitchell	60,000	1.40%
	695,000	

Registered office and principal administrative office

The registered office of the company is located at:

Shop 8B, 75-77 Main Hurstbridge Road,
Diamond Creek, VIC 3089
Phone: (03) 9438 3194

The principal administrative office of the company is located at:

Shop 8B, 75-77 Main Hurstbridge Road,
Diamond Creek, VIC 3089
Phone: (03) 9438 3194

Security register

The security register (share register) is kept at:

Richmond Sinnott & Delahunty
Level 2, 10-16 Forest Street,
Bendigo, VIC 3550
Phone: (03) 5445 4200

Company Secretary

Melissa Vickrage has been the Company Secretary of Valley Community Financial Services Limited since May 2013.

Corporate governance

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

(a) The establishment of an Audit Committee. Members of the Audit Committee are Stephen Bennett, Philip Marendaz and Daryl Brooke.

(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.

5 Year summary of performance

	2008 $	2009 $	2010 $	2011 $	2012 $
Gross revenue	2,127,917	2,563,920	3,078,134	3,626,530	4,062,274
Net profit before tax	208,434	240,521	(75,786)	260,528	302,626
Total assets	1,027,712	1,026,497	2,217,124	2,725,411	2,701,461
Total liabilities	198,928	197,379	211,212	706,786	557,917
Total equity	828,784	829,118	2,005,912	2,018,625	2,143,544

Hurstbridge & Districts **Community Bank®** Branch
808 Main Road, Hurstbridge VIC 3099
Phone: (03) 9718 0431 Fax: (03) 9718 0166

Diamond Creek **Community Bank®** Branch
Shop 8, 75-77 Main Hurstbridge Road,
Diamond Creek VIC 3089
Phone: (03) 9438 4133 Fax: (03) 9438 6930

Eltham & District **Community Bank®** Branch
1036 Main Road, Eltham VIC 3095
Phone: (03) 9439 0188 Fax: (03) 9431 4667

Doreen & Mernda **Community Bank®** Branch
Shop 3, 101 Hazel Glen Drive, Doreen VIC 3754
Phone: (03) 9717 1433 Fax: (03) 9717 1468

Kinglake branch
Shop 4, 1 Victoria Road, Kinglake VIC 3763
Phone: (03) 5786 1656 Fax: (03) 5786 1859

Franchisee: Valley Community Financial Services Limited
PO Box 469 (Shop 8b, 75-77 Main Hurstbridge Road),
Diamond Creek VIC 3089
Phone: (03) 9438 3194 Fax: (03) 9894 3779
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www.valleyfinancial.com.au

www.bendigobank.com.au
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Bendigo Bank