Annual Report 2014

Valley Community Financial Services Limited

ABN 86 092 399 730

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 2014

The 2013/14 financial year has been a challenging year for our business. Our total business grew by 6.5% bringing us to over $437 million in banking business. Due to the tight economic environment, reduced margins and a low interest environment, our income fell by 2% ($9,000) to just under $4 million for the 2013/14 financial year.

As a result of this, we have had to reduce our sponsorships over the financial year but we are still able to report a net profit after tax of $208,000 - slightly up on 2013. The good news is that all our branches have been quite busy writing business but unfortunately have experienced debt reduction on the other side of the book. This means we need to write a lot more business than in previous years just to maintain our current level. It is expected this pay down of debt will not continue into the long term provided we continue to have a busy business. We can expect to have solid growth into the future. We still have two of our branches, Eltham & District and Doreen & Mernda **Community Bank**® branches, striving to grow their business to that breakeven point. When we do have five branches in profit, it will be very exciting times for shareholders and community strengthening alike.

In October 2013, I accepted the Board's offer to move to an Executive Chairman's role within the company. I now dedicate 1.5 days per week to the senior management of our business. This role has enabled me to get to know our business better, review items such as our strategy plan, ensuring that we are on track and implement processes and procedures that the Board has set up. I am also able to review in consultation with Bendigo and Adelaide Bank Limited's Regional Manager, our branch structure and staffing levels and look to constantly monitor the costs of our business and look for new ways to provide those services that we do. The new role also enables me to be a very good conduit between the Board, our management team and their staff and try to keep everyone informed on the direction we are headed.

305 communities with a $122 million reasons to celebrate

Thanks to the support of **Community Bank**® branch customers and shareholders, the Australia-wide network has now returned more than $122 million to support and strengthen local communities.

This enormous achievement came as the **Community Bank**® network celebrated the opening of its 305th branch in Penola, South Australia, 16 years after the **Community Bank**® concept was born in the western Victorian farming townships of Rupanyup and Minyip in 1998.

These branches join a robust and maturing banking network where valued partnerships enhance banking services, taking the profits their banking business generates and reinvesting that funding into initiatives that will ultimately strengthen their community.

Our **Community Bank**® company has played a key role in these milestones, returning more than $3.383 million to our local community with a further $1.209 million dividends returned to local shareholders. The contribution to our communities during the 2013/14 financial year has been $185,000.

These community grants and sponsorships have made a significant difference to a number of local organisations including Wattle Glen Fire Brigade, Diamond Creek Rotary Town Fair and Hurstbridge Wattle Festival. We look forward to continuing to support these groups and others as more people bank with us and we become more successful.

Ratings upgrade

Bendigo and Adelaide Bank Limited remains one of the few banks globally to be awarded an upgraded credit rating since the onset of the Global Financial Crisis.

This means the 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.

Government guarantee

In September 2011, the Federal Government announced changes to its Financial Claims Scheme (FCS), also known as the "government guarantee", lowering it from $1 million to a permanent guarantee cap of $250,000 per account holder per Authorised Deposit-taking Institution (ADI) effective 1 February 2012.

All **Community Bank**® branches operate under Bendigo and Adelaide Bank Limited's banking licence, and as such the first $250,000 of a depositor's funds held with a **Community Bank**® branch are guaranteed by the Federal Government, free of charge, and supported by the capital base and financial strength of their franchise partner, Bendigo and Adelaide Bank Limited.

Lowering the cap is an indication of the strength of Australian banks, including Bendigo and Adelaide Bank Limited and the combination of healthy, profitable banks and strong prudential regulation is the best guarantee our customers have that their money is safe in our bank.

Review of Community Bank® model

The review of the **Community Bank**® model currently underway is a collaborative effort to rigorously explore and analyse the model; an approach strongly underpinned by financial modelling and empirical analysis. The future model will then be tested and reviewed through extensive consultation and enquiry.

With a holistic strategic review of the **Community Bank**® model, and with a joint commitment to set the vision and strategy for a sustainable commercial model, Bendigo and Adelaide Bank Limited and its **Community Bank**® partners will create a shared vision for future long-term success regardless of changes to operational and market conditions.

I am a member of one of the working groups called Future State Models that has been looking at how a branch will look in the future.

We are well advanced in developing a new strategy plan that reflects the tight margins, the reduced transactional business that we do compared to previous 10 years ago. We will incorporate new business opportunities in the areas of wealth and insurance and review our branch management structures and physical appearance.

Your Board is dealing with the changes in the market place; reduced income margins means we need to find ways to reduce our costs. We are looking to review our occupancy costs and the appearance of our branch footprint. As our transactional business across the counter reduces, we are looking to increase our sales focus and skill levels of our teams to be able to embrace these new opportunities. We are looking to improve the mobility of our Managers and creating mobile bankers so that we can offer the service our customers expect in 2014 and beyond.

We are also looking to negotiate more innovative business development arrangements with our many community partners ensuring sustainability for sponsorships by growing our business. These arrangements are regularly reviewed and renewed. We have reviewed the management structure in the Kinglake branch and have created a permanent Managers role ensuring sales people permanently located in Kinglake and freeing up Dion Shirley, our Manager at Hurstbridge & Districts **Community Bank**® Branch to concentrate on Hurstbridge and District, our flagship branch. We have reviewed the management structure and have also made changes at our Eltham & District **Community Bank**® Branch to reflect the size and type of business that we are pursuing.

We continue to strengthen our communities supporting local business with our purchase power continuing sponsorship and facilitating local events like Small Business Expo held at Eltham Community Centre in 2013 and will help fund the 2014 event which was held at the **Community Bank**® Stadium. We support local festivals, community events and local media strengthening community, good communication and interaction and encouraging people to be involved locally. Our funds help to offer seed capital enabling groups to leverage off their funds to obtain more from the three tiers of government. In 2013, your Board approved a $25,000 contribution to the Panton Hill Cricket Club training nets. This enabled the Cub to go to Council who in turn applied to Sport & Recreation Victoria (SRV) for funds. Without a guarantee of the funds needed other than what the SRV may offer, Council would not even be able to apply. We will now see a $130,000 project completed by Christmas 2014.

Chairman's report (continued)

Panton Hill Cricket Club are now working hard with us to help promote our branches to members and locals and will ensure recognition for the life of those nets. The new facility will be made available for other groups, such as local schools, and becomes a facility for the whole community and not just the cricket club.

Once again I would like to take this opportunity to thank our business partner, Bendigo and Adelaide Bank Limited. They continue to provide tremendous support to our Managers and our branches, mentoring for our business and are dedicated to the business model and supporting and strengthening our local communities. I would like to acknowledge the hard work put in throughout the 2013/14 financial year of our Board of Directors. We have a dedicated team with a broad spectrum of talents that they all use to add value to our business.

I would also like to thank our management team –our five Branch Managers. Our Business Development Manager (Eltham), Michael Maloney, our Senior Banking Manager (Hurstbridge), Dion Shirley, Manager (Diamond Creek) Tina Elmer, Manager (Doreen/Mernda) Jennifer Pearson and Manager (Kinglake) David Watson. We are fortunate to have a very dedicated management team who put in above and beyond to try and brow their businesses. They have all built a strong team of staff in their branches, who are also extremely professional and work in the best interest of the company. I would like to thank them all for their contribution in 2014.

I also would like to thank the three women that work in our Administration Office in Diamond Creek. Melissa Vickrage who doubles as Company Secretary and my Personal Assistant, does a wonderful job and is extremely dedicated and loyal to our company. Melinda De Bolfo who does most of our marketing and advertising and the reviews for our grants and sponsorship applications, is dedicated to the work of our **Community Bank**® branches and is one of our best referral people bringing new business to our business. Louise Danson has been with us for nearly two years and assists Melissa and Melinda along the way. We are indeed fortunate to have found such good people to work for the company.

Finally, I'd like to thank the families of all those people involved with the **Community Bank**® branches because whilst we thoroughly enjoy the work we do, it is very demanding and families often find they have to fit in with the **Community Bank**® concept.

Barry Henwood

Barry Henwood
Chairman

Hurstbridge Manager's report

For year ending 30 June 2014

I have great pleasure in presenting my report for the 2014 financial year. It was an extremely busy and challenging year for the Hurstbridge & Districts **Community Bank**® Branch from a growth point of view.

Low confidence and concern over the economic landscape resulted in customers using savings to reduce debt. With interest rates at an all-time low, depositors have been exploring alternative investments. These factors coupled with the runoff and debt amortisation of a more mature business, have seen our loan base increase marginally by 0.5% to $95.2 million and our deposit base also decrease by 5.1% to $100.3 million.

However overall lending activity has increased by 24.1% with the branch sitting at number two in the region and number 19 nationally as at 30 June 2014.

I believe that we can all take a great deal of pride in our achievements in a very tough year. These achievements would not have been possible without the hard work, commitment and dedication of each and every one of our valued team members. All members of our team are passionate about what they do and perform their duties to the best of their abilities, with care, skill and integrity. I would also like to sincerely thank our Board members and our partners, Bendigo and Adelaide Bank Limited who have been great supporters of our branch and staff throughout the year.

On an extremely sad note, our much loved and respected Customer Service Officer, Jo Mills passed away suddenly on 30 January 2014 after a short illness. Jo had been with us for over 10 years and is sadly missed by the Hurstbridge **Community Bank**® Branch staff, the Valley Group and customers. Our sincere condolences to Jo's husband Shane, and their three children.

In closing we look forward to the continuing support of our customers and shareholders, and a growing awareness of the significant long-term contribution the **Community Bank**® branch will make to the Hurstbridge and district community.

Dion Shirley
Senior Banking Manager

Diamond Creek Manager's report

For year ending 30 June 2014

On 26 March 2014, Diamond Creek **Community Bank**® Branch hit a very significant milestone. We celebrated our 10th Birthday with staff, customers and Board members. We are truly proud that we have outlived the majors in this town with the ANZ closing its doors on 17 April 2014. Our longevity is a testament to our **Community Bank**® model and what we stand for, and our customers' beliefs in our **Community Bank**® brand.

Diamond Creek **Community Bank**® Branch finished the year with total footings of $104.2 million, a growth rate of 4.1%. Customer numbers sit at 3,260, compared to 3,143 last year. Number of accounts is 4,827 – 202 accounts up on last year. These figures are reflective of another challenging year. With uncertainty still prevalent in the market place, it has affected customers' willingness to borrow. Customers are reducing debt and utilising deposit funds to do so. Competition in the market place with various lenders and brokers and online lenders, has had an effect, giving customers more options than ever before. Now more than ever our point of difference is very important.

As our business ages, our challenge now will be heavily focused on retention of existing clients, both in the lending book and deposit book. Acquisition of new customers goes without saying. The tools provided to us by Bendigo and Adelaide Bank Limited should assist us in both these important areas. Another advantage we have that gives us more oppotunity to penetrate the area is the recent closure this year of the ANZ Bank. We have acquired a number of customers from them recently. The only competition that remains in our area is the Commonwealth Bank.

I would like to thank my dedicated staff members, Melinda Tonti, Monica Rae, Heather Hayman, Jo Sandy and Justyna Echaust, who continually go above and beyond to ensure our customers have a memorable experience when conducting their banking. Their commitment shines through in their willingness to attend community functions in their own time. The enthusiasm, and dedication to grow our business shown daily by my staff should make our work a lot easier. To my team a 'big thank you'.

I sincerely thank all the Board members for their support, time and assistance over the last 12 months. To our shareholders, community groups, local clubs I sincerely thank you for choosing us as your **Community Bank**® branch. It is your support that enables us to continue to invest in the community. You are the voice and our story needs to be told at every opportunity to increase awareness throughout the community.

My branch staff and I are looking forward to another exciting 12 months, and will endeavour to do all we can to achieve our goals and invest in the community.

Tina Elmer
Manager

Eltham Manager's report

For year ending 30 June 2014

This year has proven to be a difficult one for the Eltham Branch as slow demand for credit and increased activity from the competition slowed overall growth to 15.9% or $7.9 million. These figures also include a contribution from the Business Development Manager in lending of $4.9 million and deposits of $1.7 million.

The growth in the lending portfolio of $3.231 million was disappointing and a result of lower demand for credit, increased reduction in debt due to low interest rate environment and a higher level of discharges due to increase discounting of interest rates by the competition. This situation has now eased with the Bank launching a fresh marketing campaign and reducing their own interest rates to meet the market.

Deposit growth of $4.669 million was above budget and a strong result in the face of stiff competition in Eltham.

On a further positive note I can report overall growth in customer numbers of 18.2% and total accounts of 2,492, an increase of 384.

The staffing structure of the Branch altered in April when Branch Manager Liam Jones was appointed inaugural Branch Manager at Kinglake branch. This saw the Business Development Manager, Michael Maloney assume the role of Branch Manager. The introduction to the Branch of Dan Mathers as Customer Relationship Manager means Michael Maloney will continue a multifaceted role of business development, Branch Manager and mobile lender.

At this point I would like to thank Liam Jones for all the effort he put in to growing our foot print in the Eltham area. I would also like to thank all of the remaining staff at Eltham who have continued to excel through a difficult period of transition. Karen McDermott, Janice Hawkins, Dan Mathers, Janine Woolnough and Annette Austin have all committed to the new Branch plan for 2014/15 which should result in growth approaching $20 million. Thank you for your support and positive approach.

We continue to strengthen relationships with local groups and these relationships are starting to bear fruit.

The next year is certainly a challenging one but a challenge that the branch intends to meet head on. With recent new marketing campaigns launched by the Bank, good supporting training to all staff and a more competitive suite of products I believe we can meet the targets we have committed to.

Finally I would like to thank the Board of Directors and our Administration staff for all of their leadership and support over the past 12 months.

Michael Maloney
Manager

Doreen & Mernda Manager's report

For year ending 30 June 2014

The Doreen & Mernda **Community Bank**® Branch is now into its third year of trading and continues to grow at a pleasing and steady pace with growth in overall business increasing this past financial year by $11.2 million to $40.2 million and customer accounts increasing by 440 to 2,439.

When you choose to bank with your local **Community Bank**® branch, you are making a decision that benefits you and your community!

I would personally like to thank our loyal customers, shareholders, traders, schools, sporting clubs, emergency services and not for profit organisations for supporting our business and for being such great advocates in the community and assisting in this very important growth.

In order to continue to grow the business and share a larger amount of revenue with our local community we rely on the support of customers and organisations by way of banking and taking advantage of the full suite of financial products Bendigo and Adelaide Bank Limited has to offer. I urge all customers and shareholders to consider what financial products they currently have from superannuation, loans, deposits to insurance and income protection and whether their **Community Bank**® branch could offer a similar or better product!

I would like to thank my dedicated branch staff Sarah Griffiths, Mary Hughes, Lidia Lucisano and Naomi Pickford who deliver an exceptional, friendly and professional service to our customers and provide a banking experience that is second to none.

Finally I would like to thank our wonderful administration team at Valley Community Financial Services Limited, fellow Branch Managers and our dedicated Board of Directors who have all been such a wonderful support to myself and the branch team.

We look forward to another year of growth and the return of benefits to the local community.

Jennifer Pearson
Manager

Kinglake Manager's report

For year ending 30 June 2014

It is once again with pleasure that I submit the Manager's report for the Kinglake branch for 2013/14.

This is Kinglake's fifth year of trading, and for the past 12months Kinglake has been a fully operational branch, providing full banking services from Monday to Saturday. Accounts and transactions have been steadily rising with total business footings increasing to $37 million as at 30 June 2014.

This has been an exciting chapter for us as we are now able to provide convenient banking services and make a contribution to our local community via sponsorship and grants for worthwhile community projects. We also provide local employment by employing four local people.

Our customers support the branch secure in the knowledge that they will receive great service, competitive banking products and the satisfaction of knowing that their banking is helping their community.

The 24-hour ATM has proven very popular with average transactions of 2,000 per month. It has been well received by the public who have enjoyed the convenience of accessing cash in a small community. We are keen to pursue other means of making banking convenient and as a local resident I remain available for after hours appointments.

I would like to acknowledge the efforts of our staff who are always considerate of our customer's needs and provide them with professional and friendly service.

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

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

Dion Shirley
Senior Banking Manager

Treasurer's report

For year ending 30 June 2014

Business performance summary

The prolonged tight economic conditions and continued trend of consumer debt reduction in a low interest rate environment has seen the company post a moderate, but healthy result for the financial year 2013/14.

These features, combined with a low demand for consumer debt, have led to across the board rate and fee discounting by our larger competitors. In spite of this, the company's new business activity and writings has been very strong, pointing to an underlying strength, which can be capitalised on when conditions are more favourable.

To highlight this, the company grew its business footings by a healthy $28 million despite the heavy reduction in debt by its lending customer base and the stiff competition for deposit products.

Detracting from this growth has been the decline in margins earned on deposits and loans as a result of the low interest environment. On a positive note, this slide stabilised in the second half of the financial year 2013/14. This together with tight control over expenses and a concerted effort to raise the level of income earned from fees and income has allowed the company to post a healthy profit before tax and sponsorship of $473,400.

Key financial data:

Footings increased by	$28 million to $436.6 million
Income reduced by	$78,500 to $3,983.80
Employment costs increased by	$124,200 to $2,090.7 million
Expenses increased by	$40.6K to $3,510.4 million
Total profit reduced by	$119,100 to $473,400
Profit after tax and sponsorship increased by	$34,300 to $237,000
Sponsorship reduced by	$122,600 to $172,300
Cash position increased by	$207,000 to $885,300
Net assets increased by	$115,500 to $2,259 million
Retained earnings increased by	$121,800 to $87,700
Return on equity (before tax and sponsorship) reduced from	27.64% to 20.96%
Return on equity (after tax and sponsorship) increased from	9.46% to 10.49%
Cost to income ratio worsened from	85.41% to 88.12%

Key observations are as follows:

- Total expenses rose by only $40,600 or 1.2%.
- Employment costs rose by $124,200 or 6.3% largely CPI driven, but was well within budget.
- All other expense categories were lower than previous year's level and/or well within budget.
- Profit after tax and sponsorship rose by $34,300 to $237,000 and the company's cash position improved by $207,000.
- The company's net asset position and retained rose by $115,500 and $121,800 respectively, thus improving the company's long term financial position.
- Kinglake branch recorded a profit of $20,900, a turn-around of $74,800 on the previous financial year.

Treasurer's report (continued)

Financial year 2015

Looking forward, the company's objective is to counter lower profit margins and lift long term profitability by:

- Continuing to maximise sales growth from well-targeted sponsorship spending and marketing.
- Leveraging off a more experienced, well trained and optimally employed sales team, and
- Making structural changes to permanently reduce occupancy costs.

Financial year 2014 dividend

The Board of Directors has declared a dividend of 3 cents per share payable in October 2014. Total cost of the dividend is $121,557. 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 requirements which have been met are:

- The company constitution
- Corporate law
- The franchise agreement.

The Board considers that it is prudent to hold the dividend at its present level of 3 cents per share so as to maintain a balance between its three key objectives and responsibilities of:

- Maintaining financial stability by increasing long term Retained Earnings within the company ($121,800).
- Maintaining a significant contribution to the community by way of sponsorship spending ($172,300), and
- Paying a shareholder return ($121,600).

Stephen Bennett
Treasurer

Directors' report

For the financial year ended 30 June 2014

Your Directors present their report of the company for the financial year ended 30 June 2014. The information in the preceding operating and financial review forms part of this Directors' report for the financial year ended 30 June 2014 and is to be read in conjunction with the following information:

Directors

The following persons were Directors of Valley Community Financial Services Limited during or since the end of the financial year up to the date of this report:

Name and position held	Qualifications	Experience and other Directorships
Barry Henwood Appointed 30 November 2001 Executive Chairman	Dip Hort. Sci, Grad Dip Acc Newsagent and Licensed Post Office	Member of all Committees with the exception of the Audit Committee
Malcolm Hackett OAM Appointed 6 February 2008 Deputy Chairman	BA Dip. Ed Retired	Chair of Community Strengthening Committee Chair of Policy & Procedures Committee Member of Strategy Committee
Stephen Bennett Appointed 6 February 2008 Treasurer	Winery Proprietor	Chair of Finance Committee Member of Policy & Procedures Committee Member of Audit Committee
Ingrid Crichton Appointed 6 February 2008 Director	Retired	Chair of Human Resources Committee Member of Community Strengthening Committee Member of Marketing Committee
Daryl Brooke Appointed 6 May 2010 Director	Consultant	Chair of Strategy Committtee Member of Audit Committee Member of Finance Committee Member of Policy & Procedures Committee
Hugh Stubley Appointed 2 February 2005 Resigned 30 June 2014 Director		Member of Strategy Committee
Philip Marendaz Appointed 4 February 2009 Director	Public Accountant	Member of Finance Committee Member of Strategy Committee
Carole Bury Appointed 18 January 2011 Director	Personal Assistant	Chair of Events Committee Member of Community Strengthening Committee

Directors' report (continued)

Directors (continued)

Name and position held	Qualifications	Experience and other Directorships
Carol Jenkinson Appointed 29 June 2012 Director	Community Volunteer	Chair of Marketing Committee Member of Strategy Committee Member of Community Strengthening Committee Member of Events
Phillip Burtt Appointed 13 November 2013 Director		Chair of Audit Committee Member of Finance Committee
John Bot Appointed 14 November 2012 Resigned 27 November 2013 Director	Philanthropy Manager	Member of Marketing Committee Member of Strategy Committee Member of Community Strengthening Committee

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 have 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 provision for income tax was $208,434 (2013 profit: $205,957), which is a 1% increase as compared with the previous year.

The net assets of the company have increased to $2,230,421 (2013: $2,143,544). The increase is largely due to normal trading activities.

Dividends

	Year ended 30 June 2014	
	Cents per share	$
Dividends paid in the year: final dividend	3	121,557

Significant changes in the state of affairs

No significant changes in the company's state of affairs occurred during the financial year.

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.

In 2013, the Board began a process of reviewing our corporate structure and as part of that process, the Board appointed Barry Henwood as Executive Chairman in a part time executive role to accommodate the increased requirements of the company as it grew. This is an ongoing role and will be reviewed in 12 months. The position is reviewed quarterly by the Executive Committee. The appointment of an Executive Chair signals a further step in the growth of community banking in our area – as the business has grown and community contributions have increased there is a need to move to the next level of service and professionalism as an organisation. The challenge is to improve all facets of the business and ensure the future is sustainable.

Key management personnel also receive a superannuation guarantee contribution required by the government legislation, which is currently 9.25% up to 30 June 2014.

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. The remuneration of the Executive Chairman has been determined by the Board. For the intial 12 month appointment, the remuneration is exclusively a base contract without any bonus component. The Board intends to review this arrangement during this initial appointment and will consider changes to this arrangement in 2015.

Remuneration report (continued)

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 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.

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.

Director	**2014**
Barry Henwood	7,500
Malcolm Hackett (OAM)	7,000
Ingrid Crichton	5,000
Stephen Bennett	7,000
Daryl Brooke	5,000
Hugh Stubley	4,000
Philip Marendaz	4,000
Carole Bury	5,000
Carol Jenkinson	5,000
John Bot	Nil
Phillip Burt	2,000
	51,500

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 occurred 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.

Indemnifying Officers or Auditor (continued)

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 12. Attendances by each Director during the year were as follows:

Director	Board meetings #	Audit Committee Meetings #
Barry Henwood	12 (12)	N/A
Malcolm Hackett OAM	12 (12)	N/A
Stephen Bennett	11 (12)	3 (3)
Ingrid Crichton	12 (12)	N/A
Daryl Brooke	11 (12)	3 (3)
Hugh Stubley	9 (12)	N/A
Philip Marendaz	11 (12)	3 (3)
Carole Bury	11 (12)	N/A
Carol Jenkinson	12 (12)	N/A
Phillip Burt	6 (7)	N/A
John Bot	6 (6)	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.

Directors' report (continued)

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 incuding 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 April 2010.

Non audit services

The Board of 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 18 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 27 August 2014.

Barry Henwood

Barry Henwood
Director

Auditor's independence declaration

Richmond Sinnott & Delahunty
Chartered Accountants

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

Ph: (03) 5445 4200
Fax: (03) 5444 4344
rsd@rsdadvisors.com.au
www.rsdadvisors.com.au

11 September 2014

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 2014 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 Pty Ltd
ABN 60 616 244 309
Liability limited by a scheme approved under Professional Standards Legislation

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

Financial statements

Statement of profit or loss and Other Comprehensive Income for the year ended 30 June 2014

	Notes	2014 $	2013 $
Revenue	2	3,983,794	4,062,274
Employee benefits expense	3	(2,089,442)	(1,968,966)
Depreciation and amortisation expense	3	(199,069)	(207,561)
Finance costs	3	(10,448)	(8,352)
Bad and doubtful debts expense	3	(6,507)	(2,419)
Rental expense		(338,504)	(325,265)
Other expenses		(866,353)	(952,156)
Operating profit before charitable donations & sponsorships		**473,471**	**597,555**
Charitable donations and sponsorships		(172,364)	(294,929)
Profitbefore income tax expense		**301,107**	**302,626**
Tax expense	4	(92,673)	(98,792)
Profitfor the year		**208,434**	**203,834**
Other comprehensive income		-	-
Total comprehensive income		**208,434**	**203,834**
Profit attributable to members of the company		208,434	205,957
Total comprehensive income attributable to members of the company		**208,434**	**203,834**
Earnings per share (cents per share)			
- basic for profit for the year	21	5.14	5.03

The accompanying notes form part of these financial statements.

Statement of financial position as at 30 June 2014

	Notes	2014 $	2013 $
Assets			
Current assets			
Cash and cash equivalents	6	885,325	678,347
Trade and other receivables	7	324,679	313,732
Total current assets		**1,210,004**	**992,079**
Non-current assets			
Property, plant and equipment	8	825,037	888,714
Deferred tax asset	4	43,080	42,858
Intangible assets	9	647,056	777,810
Total non-current assets		**1,515,173**	**1,709,382**
Total assets		**2,725,177**	**2,701,461**
Liabilities			
Current liabilities			
Trade and other payables	10	129,319	169,496
Loans and borrowings	11	33,432	33,432
Provisions	12	91,894	96,034
Total current liabilities		**254,645**	**298,962**
Non current liabilities			
Loans and borrowings	11	189,190	212,130
Provisions	12	50,921	46,825
Total non current liabilities		**240,111**	**258,955**
Total liabilities		**494,756**	**557,917**
Net assets		**2,230,421**	**2,143,544**
Equity			
Issued capital	13	2,055,876	2,055,876
Retained earnings	14	174,545	87,668
Total equity		**2,230,421**	**2,143,544**

The accompanying notes form part of these financial statements.

Statement of changes in equity for the year ended 30 June 2014

	Note	Issued capital $	Retained earnings $	Total equity $
Balance at 1 July 2012		**2,055,876**	**(37,251)**	**2,018,625**
Total comprehensive income for the year		-	203,834	203,834
Transactions with owners, in their				
capacity as owners				
Shares issued during the year		-	-	-
Dividends paid or provided	22	-	(81,038)	(81,038)
Balance at 30 June 2013		**2,055,876**	**85,545**	**2,141,421**
Balance at 1 July 2013		**2,055,876**	**85,545**	**2,141,421**
Total comprehensive income for the year		-	208,434	208,434
Transactions with owners, in their				
capacity as owners				
Shares issued during the year		-	-	-
Dividends paid or provided	22	-	(121,557)	(121,557)
Balance at 30 June 2014		**2,055,876**	**172,422**	**2,228,298**

The accompanying notes form part of these financial statements.

Statement of cash flows
for the year ended 30 June 2014

	Notes	2014 $	2013 $
Cash flows from operating activities			
Receipts from customers		3,962,291	3,617,940
Payments to suppliers and employees		(3,484,416)	(3,154,611)
Interest paid		(10,448)	(8,352)
Interest received		19,844	21,108
Income tax paid		(129,540)	(95,442)
Net cash provided by operating activities	**15**	**357,731**	**380,643**
Cash flows from investing activities			
Purchase of property, plant & equipment		(6,256)	(184,839)
Purchase of intangible assets		-	(300,000)
Net cash flows used in investing activities		**(6,256)**	**(484,839)**
Cash flows from financing activities			
Proceeds from borrowings		-	200,000
Repayment of borrowings		(22,940)	(12,523)
Dividends paid		(121,557)	(81,038)
Net cash provided by/(used in) financing activities		**(144,497)**	**106,439**
Net increase in cash held		**206,978**	**2,243**
Cash and cash equivalents at beginning of financial year		678,347	676,104
Cash and cash equivalents at end of financial year	**6**	**885,325**	**678,347**

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2014

These 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 27 August 2014.

Note 1. Summary of significant accounting policies

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The company is a for profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these 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.

Economic dependency

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank**® branches.

The branches operate as a franchise of Bendigo and Adelaide Bank Limited, using the name "Bendigo Bank" and the logo and system of operations of Bendigo and Adelaide Bank Limited. The company manages the **Community Bank**® branches on behalf of Bendigo and Adelaide Bank Limited, however all transactions with customers conducted through the **Community Bank**® branches are effectively conducted between the customers and Bendigo and Adelaide Bank Limited.

All deposits are made with Bendigo and Adelaide Bank Limited, and all personal and investment products are products of Bendigo and Adelaide Bank Limited, with the company facilitating the provision of those products. All loans, leases or hire purchase transactions, issues of new credit or debit cards, temporary or bridging finance and any other transaction that involves creating a new debt, or increasing or changing the terms of an existing debt owed to Bendigo and Adelaide Bank Limited, must be approved by Bendigo and Adelaide Bank Limited. All credit transactions are made with Bendigo and Adelaide Bank Limited, and all credit products are products of Bendigo and Adelaide Bank Limited.

Bendigo and Adelaide Bank Limited provides significant assistance in establishing and maintaining the **Community Bank**® branch franchise operations. It also continues to provide ongoing management and operational support, and other assistance and guidance in relation to all aspects of the franchise operation, including advice in relation to:

- Advice and assistance in relation to the design, layout and fit out of the **Community Bank**® branch;
- Training for the Branch Managers and other employees in banking, management systems and interface protocol;

Note 1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

Economic dependency (continued)

- Methods and procedures for the sale of products and provision of services;
- Security and cash logistic controls;
- Calculation of company revenue and payment of many operating and administrative expenses;
- The formulation and implementation of advertising and promotional programs; and
- Sale techniques and proper customer relations.

(b) Income tax

The income tax expense for the year comprises current income tax expense and deferred tax expense / (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities/(assets) are measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense/(income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can 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) Fair value of assets and liabilities

The company measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the company would receive to sell an assets or would have to pay to transfer a liability in an orderly (ie unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closes equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair value of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (ie the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (ie the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

Note 1. Summary of significant accounting policies (continued)

(c) Fair value of assets and liabilities (continued)

The fair value of the liabilities and the entity's own equity instruments may be valued, where there is no observable market price in relation to the transfer of such financial instrument, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted, and where significant, are detailed in the respective note to the financial statements.

(d) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated, less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses related to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount of these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to the company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable asset are:

Class of asset	Depreciation rate
Leasehold improvements	4-5%
Plant & equipment	10-20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An assets' carrying amount is written down immediately to its recoverable amount if the assets' carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in profit or loss in the period in which they arise. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

Note 1. Summary of significant accounting policies (continued)

(e) Impairment of assets

At each reporting period, the company assesses whether there is any indication that an asset may be impaired. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less cost to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard. Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

(f) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

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 with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or 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.

(g) Employee benefits

<u>Short-term employee benefits</u>

Provision is made for the company's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

<u>Other long-term employee benefits</u>

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations.

The company's obligation for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the company does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

(h) 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 Profit or Loss and Other Comprehensive Income.

Note 1. Summary of significant accounting policies (continued)

(i) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are reported within 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.

(j) 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, dividend and fee revenue is recognised when earned.

All revenue is stated net of the amount of goods and services tax (GST).

(k) Trade and other receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

(l) Trade and other payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

(m) New and amended accounting policies adopted by the company

<u>Employee benefits</u>

The company adopted AASB 119: Employee Benefits (September 2011) and AASB 2011-10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) from the mandatory application date of 1 January 2013. The company has applied these Standards retrospectively in accordance with AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors and the transitional provisions of AASB 119 (September 2011).

For the purpose of measurement, AASB 119 (September 2011) defines obligations for short-term employee benefits as obligations expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related services. In accordance with AASB 119 (September 2011), provisions for short-term employee benefits are measured at the (undiscounted) amounts expected to be paid to employees when the obligation is settled, whereas provisions that do not meet the criteria for classification as short-term (other long-term employee benefits) are measured at the present value of the expected future payments to be made to employees.

Note 1. Summary of significant accounting policies (continued)

(m) New and amended accounting policies adopted by the company (continued)

Employee benefits (continued)

As the company expects that all of its employees would use all of their annual leave entitlements earned during a reporting period before 12 months after the end of the reporting period, adoption of AASB 119 (September 2011) did not have a material impact on the amounts recognised in respect of the company's employee provisions. Note also that adoption of AASB 119 (September 2011) did not impact the classification of leave entitlements between current and non-current liabilities in the company's financial statements.

AASB 119 (September 2011) also introduced changes to the recognition and measurement requirements applicable to termination benefits and defined benefit plans. As the company did not have any of these types of obligations in the current or previous reporting periods, these changes did not impact the company's financial statements.

Fair value measurement

The company has applied AASB 13: Fair Value Measurement and the relevant consequential amendments arising from the related Amending Standards prospectively from the mandatory application date of 1 January 2013 and in accordance with AASB 108 and the specific transitional requirements in AASB 13.

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

No material adjustments to the carrying amounts of any of the company's assets or liabilities were required as a consequence of applying AASB 13. Nevertheless, AASB 13 requires enhanced disclosures regarding assets and liabilities that are measured at fair value and fair values disclosed in the company's financial statements.

The disclosure requirements in AASB 13 need not be applied by the company in the comparative information provided for periods before initial application of AASB 13 (that is, periods beginning before 1 January 2013). However, as some of the disclosures now required under AASB 13 were previously required under other Australian Accounting Standards, such as AASB 7: Financial Instruments: Disclosures, the company has provided this previously provided information as comparatives in the current reporting period.

(n) New accounting standards for application in future periods

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:

(i) AASB 9 Financial Instruments and associated Amending Standards (applicable for annual reporting periods commencing on or after 1 January 2017).

This Standard will be applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

Although the Directors anticipate that the adoption of AASB 9 may have an impact on the company's financial instruments, it is impractical at this stage to provide a reasonable estimate of such impact.

Note 1. Summary of significant accounting policies (continued)

(n) New accounting standards for application in future periods (continued)

(ii) AASB 2012-3: Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard provides clarifying guidance relating to the offsetting of financial instruments, which is not expected to impact the company's financial statements.

(iii) AASB 2013-3: Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard amends the disclosure requirements in AASB 136: Impairment of Assets pertaining to the use of fair value in impairment assessment and is not expected to significantly impact the company's financial statements.

(o) Loans and borrowings

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

(p) 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.

(q) 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.

(r) Comparative figures

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

(s) 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:

<u>Estimation of useful lives of assets</u>

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.

Note 1. Summary of significant accounting policies (continued)

(s) Critical accounting estimates and judgements (continued)

Employee benefits provision

Assumptions required for wage growth and CPI movements. The likelihood of employees reaching unconditional service is estimated. Treatment of leave under updated AASB 119 standard.

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 evaluating 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.

(t) 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.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal 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.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discount estimated future cash payments or receipts over the expected life (or where this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability.

(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.

Note 1. Summary of significant accounting policies (continued)

(t) Financial instruments (continued)

Impairment

A financial asset (or group of financial assets) 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(s).

In the case of financial assets carried at amortised cost loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency on interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial asset is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the company recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

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.

Note 2. Revenue and other income

	2014 $	2013 $
Revenue		
- services commissions	3,963,950	4,027,089
	3,963,950	**4,027,089**
Other revenue		
- interest received	19,844	21,108
- other revenue	-	14,077
	19,844	**35,185**
Total revenue	**3,983,794**	**4,062,274**

	2014 $	2013 $

Note 3. Expenses

	2014 $	2013 $
Employee benefits expense		
- wages and salaries	1,738,084	1,633,640
- superannuation costs	155,452	141,176
- other costs	193,892	192,137
	2,089,442	**1,968,966**
Depreciation of non-current assets:		
- plant and equipment	44,496	54,416
- leasehold improvements	23,819	22,391
Amortisation of non-current assets:		
- intangible assets	130,754	130,754
	199,069	**207,561**
Finance costs:		
- Interest paid	10,448	8,352
Bad debts	6,507	2,419

Note 4. Tax expense

	2014 $	2013 $
a. The components of tax expense/(income) comprise		
- current tax expense/(income)	92,895	98,792
- deferred tax expense/(income) relating to the origination and reversal of temporary differences	(222)	(2,123)
	92,673	**96,669**
b. The prima facie tax on profit/(loss) from ordinary activities before income tax is reconciled to the income tax expense as follows:		
Prima facie tax on profit/(loss) before income tax at 30% (2013: 30%)	90,332	90,787
Add tax effect of:		
- Adjustments in respect of current income tax of previous year	-	-
- Utilisation of previously unrecognised carried forward tax losses	-	-
- Non-deductible expenses	2,341	5,882
Current income tax expense	**92,673**	**96,669**
Income tax attributable to the entity	**92,673**	**96,669**
The applicable weighted average effective tax rate is	30.78%	32.64%

	2014 $	2013 $

Note 4. Tax expense (continued)

Deferred tax asset

Deferred tax asset relating to:		
- Provisions	**43,080**	**42,858**

The applicable income tax rate is the Australian Federal tax rate of 30% (2013: 30%) applicable to Australian resident companies.

Note 5. Auditors' remuneration

Remuneration of the Auditor for:

- Audit or review of the financial report	6,448	4,150
- Share registry services	5,294	6,261
	11,742	**10,411**

Note 6. Cash and cash equivalents

Cash at bank and on hand	283,771	133,636
Short-term bank deposits	601,554	544,711
	885,325	**678,347**

The effective interest rate on short-term bank deposits was 3.30% (2013: 3.88%); these deposits have an average maturity of 90 days.

Note 7. Trade and other receivables

Current

Trade debtors	298,947	297,288
Other assets	25,732	16,444
	324,679	**313,732**

Credit risk

The company has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically provided for and mentioned within Note 7. The main sources of credit risk to the company are considered to relate to the classes of assets described as trade and other receivables and "loans" (see Note 11).

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.

Note 7. Trade and other receivables (continued)

Credit risk (continued)

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	
2014						
Trade receivables	-	-	-	-	-	-
Other receivables	298,947	-	-	-	-	298,947
Total	**298,947**	**-**	**-**	**-**	**-**	**298,947**
2013						
Trade receivables	-	-	-	-	-	-
Other receivables	297,288	-	-	-	-	297,288
Total	**297,288**	**-**	**-**	**-**	**-**	**297,288**

Note 8. Property, plant and equipment

	2014 $	2013 $
Leasehold improvements		
At cost	789,610	789,610
Less accumulated depreciation	(106,287)	(82,468)
	683,323	**707,142**
Plant and equipment		
At cost	534,078	533,595
Less accumulated depreciation	(392,364)	(352,023)
	141,714	**181,572**
Total written down amount	**825,037**	**888,714**
Movements in carrying amounts		
Leasehold improvements		
Balance at the beginning of the reporting period	707,142	596,868
Additions	-	156,225
Disposals	-	(23,560)
Depreciation expense	(23,819)	(22,391)
Balance at the end of the reporting period	**683,323**	**707,142**

Notes to the financial statements (continued)

	2014 $	2013 $

Note 8. Property, plant and equipment (continued)

	2014 $	2013 $
Property, plant and equipment		
Balance at the beginning of the reporting period	181,572	207,374
Additions	6,256	28,614
Disposals	(1,618)	-
Depreciation expense	(44,496)	(54,416)
Balance at the end of the reporting period	**141,714**	**181,572**

Note 9. Intangible assets

	2014 $	2013 $
Franchise fee / Start up costs		
At cost	383,647	383,647
Less accumulated amortisation	(311,523)	(255,769)
	72,124	**127,878**
Community Bank® Stadium Naming Rights		
At cost	750,000	750,000
Less accumulated amortisation	(175,068)	(100,068)
	574,932	649,932
Total Intangible assets	**647,056**	**777,810**
Movements in carrying amounts		
Franchise fee		
Balance at the beginning of the reporting period	127,878	183,632
Additions	-	-
Disposals	-	-
Amortisation expense	(55,754)	(55,754)
Balance at the end of the reporting period	**72,124**	**127,878**
Community Bank® Stadium Naming Rights		
Balance at the beginning of the reporting period	649,932	724,932
Additions	-	-
Disposals	-	-
Amortisation expense	(75,000)	(75,000)
Balance at the end of the reporting period	**574,932**	**649,932**

	2014 $	2013 $

Note 10. Trade and other payables

	2014 $	2013 $
Current		
Unsecured liabilities:		
Trade creditors	101,652	145,121
Income tax payable	19,390	21,275
Other creditors and accruals	8,278	3,100
	129,319	**169,496**

Note 11. Borrowings

	2014 $	2013 $
Current Borrowings	33,432	33,432
Non-current Borrowings	189,190	212,130
	222,622	**245,562**

Note 12. Provisions

	2014 $	2013 $
Employee benefits	**142,815**	**142,859**
Movement in employee benefits		
Opening balance	142,859	125,630
Additional provisions recognised	131,715	136,183
Amounts utilised during the year	(131,759)	(118,954)
Closing balance	**142,815**	**142,859**
Current		
Annual leave	91,894	96,034
	91,894	**96,034**
Non-current		
Long-service leave	50,921	46,825
	50,921	**46,825**
Total provisions	**142,815**	**142,859**

Provision for employee benefits

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

Note 12. Provisions (continued)

Provision for employee benefits (continued)

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.

	2014 $	2013 $
Note 13. Share capital		
2,055,876 Ordinary shares fully paid of $1 each	2,055,876	2,055,876
3:1 Bonus shares (1,996,014) issued for no consideration		
Less: Equity raising costs	-	-
	2,055,876	**2,055,876**
Movements in share capital		
Fully paid ordinary shares:		
At the beginning of the reporting period	4,051,890	4,051,890
Shares issued during the year	-	-
At the end of the reporting period	**4,051,890**	**4,051,890**

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

Note 13. Share capital (continued)

Capital management (continued)

(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 2014 can be seen in the Statement of Profit or Loss and Comprehensive Income.

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

	2014 $	2013 $

Note 14. Retained earnings

	2014 $	2013 $
Balance at the beginning of the reporting period	87,668	(37,251)
Profit/(loss) after income tax	208,434	205,957
Dividends	(121,557)	(81,038)
Balance at the end of the reporting period	**174,545**	**87,668**

Note 15. Statement of cash flows

Reconciliation of profit / (loss) after tax to net cash provided from/(used in) operating activities	2014 $	2013 $
Profit / (loss) after income tax	208,434	205,957
Cash flows excluded from profit attributable to operating activities:		
- Purchase of intangible assets previously expensed	-	300,000
Non cash items		
- Depreciation	68,315	76,807
- Amortisation	130,754	130,754
- Asset write offs	1,618	23,560
Changes in assets and liabilities		
- (Increase) decrease in receivables	(10,947)	(17,967)
- (Increase) decrease in deferred tax asset	(222)	(2,122)
- Increase (decrease) in payables	(40,177)	(353,575)
- Increase (decrease) in provisions	(44)	17,229
Net cash flows from/(used in) operating activities	**357,731**	**380,643**

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.

The totals of remuneration paid to Key Management Personnel of the company during the year are as follows:

(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.

(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 $4,774 (2013: $7,309) 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 $1,445 (2013: $2,993) was paid to Virage IT.

Accounting services expenses were paid to Marendaz Pty Ltd - an associated entity of Director Phil Marendaz. During the year an amount of $60,504 (2013: $64,225) was paid to Marendaz Pty Ltd.

Staff amenities expenses were paid to Lovegrove Vineyard & Winery - an associated entity of Director Stephen Bennett. During the year an amount of $364 (2013: nil) was paid to Lovegrove Vineyard & Winery.

Director remuneration for the year ended 30 June 2014:

	2014
Barry Henwood	7,500
Malcolm Hackett (OAM)	7,000
Ingrid Crichton	5,000
Stephen Bennett	7,000
Daryl Brooke	5,000
Hugh Stubley	4,000
Philip Marendaz	4,000
Carole Bury	5,000
Carol Jenkinson	5,000
John Bot	Nil
Phillip Burt	2,000
	51,500

Note 16. Related party transactions (continued)

(c) Transactions with key management personnel and related parties (continued)

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

(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:

	2014	2013
Barry Henwood	11,000	11,000
Malcolm Hackett (OAM)	20,000	20,000
Ingrid Crichton	5,750	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	-	-
Phillip Burt	-	-
John Bot	-	-

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 (2013: 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

1036 Main Road
Eltham VIC 3095

Shop 3, 101 Hazel Glen Drive
Doreen VIC 3754

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:

	2014 $	2013 $
Profit/(loss) after income tax expense	**208,434**	**203,834**
Weighted average number of ordinary shares for basic and diluted earnings per share	**4,051,890**	**4,051,890**

	2014 $	2013 $

Note 22. Dividends paid or provided for on ordinary shares

(a) Dividends paid during the year

	2014 $	2013 $
Final fully franked ordinary dividend of 3 cents per share (2013: 2 cents) franked at the tax rate of 30% (2013: 30%).	**121,557**	**81,038**

(b) Franking credit balance

	2014 $	2013 $
The amount of franking credits available for the subsequent financial year are:		
- Franking account balance as at the end of the financial year	52,067	220,188
- Franking credits that will arise from payment of income tax payable as at the end of the financial year	19,391	56,036
	71,458	**276,224**

Note 23. Leases

Operating lease commitments

	2014 $	2013 $
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable - minimum lease payments		
- no later than 12 months	274,568	257,624
- between 12 months and 5 years	380,349	654,917
- greater than 5 years	-	-
	654,917	**912,541**

Note 24. 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	2014 $	2013 $
Financial assets			
Cash and cash equivalents	6	885,325	678,347
Trade and other receivables	7	324,679	313,732
Total financial assets		**1,210,004**	**992,079**
Financial liabilities			
Trade and other payables	10	129,319	169,496
Borrowings	11	222,622	245,562
Total financial liabilities		**351,941**	**415,058**

Note 24. Financial risk management (continued)

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 main risks the company is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk, foreign currency risk and other price risk. There have been no substantial 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.

Credit risk is managed through maintaining procedures that ensure, to the extent possible, that clients and counterparties to transactions are of sound credit worthiness. 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 (2013: 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.

	2014 $	2013 $
Cash and cash equivalents:		
A rated	**885,325**	**678,347**

(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.

Note 24. Financial risk management (continued)

(b) Liquidity risk (continued)

The table below reflects an undiscounted contractual maturity analysis for financial liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

Financial liability and financial asset maturity analysis:

30 June 2014	Note	Total $	Within 1 year $	1 to 5 years $	Over 5 years $
Financial liabilities due					
Trade and other payables	10	129,319	129,319	-	-
Loans and borrowings	11	222,622	33,432	189,190	-
Total expected outflows		**351,941**	**162,751**	**189,190**	**-**
Financial assets - realisable					
Cash & cash equivalents	6	885,325	885,325	-	-
Trade and other receivables	7	324,679	324,679	-	-
Total anticipated inflows		**1,210,004**	**1,210,004**	**-**	**-**
Net (outflow) inflow on					
financial instruments		**858,063**	**1,047,253**	**(189,190)**	**-**

30 June 2013	Note	Total $	Within 1 year $	1 to 5 years $	Over 5 years $
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 on					
financial instruments		**992,079**	**992,079**	**-**	**-**

Note 24. 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.

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.

The financial instruments that primarily expose the company to interest rate risk are borrowings, fixed interest securities, and cash and cash equivalents.

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 2014		
+/- 1% in interest rates (interest income)	6,627	6,627
	6,627	**6,627**
Year ended 30 June 2013		
+/- 1% in interest rates (interest income)	4,328	4,328
	4,328	**4,328**

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 are presented in the following table and can be compared to their carrying amounts as presented in the statement of financial position. The company does not have any unrecognised financial instruments at year end.

Differences between fair values and the carrying amounts of financial instruments with fixed interest rates are due to the change in discount rates being applied to the market since their initial recognition by the company. Most of these instruments, which are carried at amortised cost, are to be held until maturity and therefore the fair value figures calculated bear little relevance to the company.

Note 24. Financial risk management (continued)

(d) Price risk (continued)

Fair values (continued)

	Note	2014		2013	
		Carrying amount $	Fair value $	Carrying amount $	Fair value $
Financial assets					
Cash and cash equivalents (i)		885,325	885,325	678,347	678,347
Trade and other receivables (i)		324,679	324,679	313,732	313,732
Total financial assets		**1,210,004**	**1,210,004**	**992,079**	**992,079**
Financial liabilities					
Trade and other payables (i)		129,319	129,319	169,496	169,496
Loans and borrowings		222,622	222,622	245,562	245,562
Total financial liabilities		**351,941**	**351,941**	**415,058**	**415,058**

(i) Cash and cash equivalents, trade and other receivables, and trade and other payables are short-term instruments in nature whose carrying amounts are equivalent to their fair values. The fair values of receivables and payables are determined on the basis of an income approach using a discounted cash flow methodology. Discount rates are based on market interest rates for similar instruments and range between 7.8% and 9.3%, depending upon the nature of the instrument.

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, as set out on pages 19 to 46 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 2014 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

Barry Henwood
Director

Signed at Diamond Creek on 27 August 2014.

Independent audit report

Richmond Sinnott & Delahunty

Chartered Accountants

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

Ph: (03) 5445 4200
Fax: (03) 5444 4344
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 2014, 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.

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

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

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 2014 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 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. 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 2014, complies with section 300A of the *Corporations Act 2001*.

RICHMOND SINNOTT & DELAHUNTY
Chartered Accountants

P. P. Delahunty
Partner
Dated at Bendigo, 11 September 2014

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, 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	124	94,100
1,001 to 5,000	346	1,066,467
5,001 to 10,000	87	725,550
10,001 to 100,000	73	2,061,240
100,001 and over	1	104,533
Total shareholders	**631**	**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 NIL 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
Walter H Mott	104,533	2.57%
Graham Dryden & Clare Dryden	90,000	2.20%
C E Lance & D G Lance ATF Lance Super Fund	90,000	2.20%
Brian Stevens & Elizabeth Stevens	70,000	1.70%
Kygem Super Fund Pty Ltd ATF Kygem Super Fund	68,000	1.67%
Neil Trezise	65,000	1.60%
Dale Trezise	65,000	1.60%
Vetemac Pty Ltd ATF Vetemac Super Fund	60,000	1.40%
Harold Charles Mitchell	60,000	1.40%
Bruce Donelly	60,000	1.40%
	732,533	

Registered office and principal administrative office

The registered office of the company is:

8B 75-77 Main Hurstbridge Road
Diamond Creek VIC 3089

The principal administrative office of the company is:

Shop 8B
75-77 Main Hurstbridge Road
Diamond Creek VIC 3089

Security register

The security register (share register) is kept at:

Richmond Sinnott & Delahunty
Level 2, 10-16 Forest Street
Bendigo VIC 3550

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

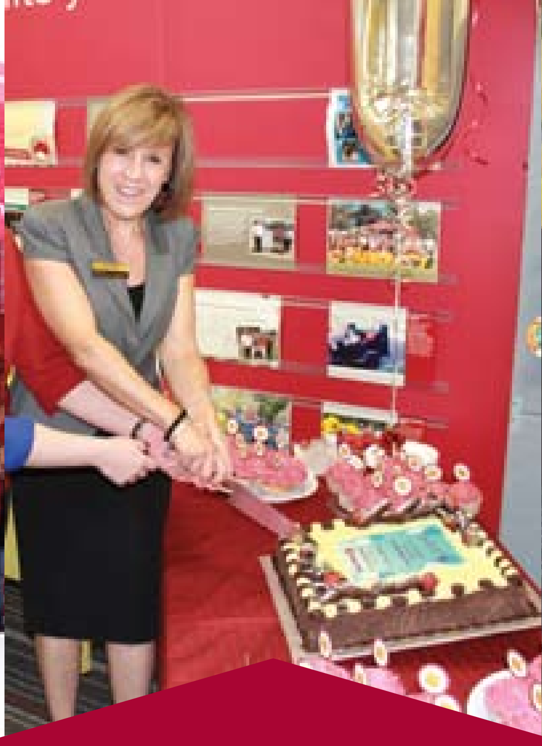
(d) Monthly Director meetings to discuss performance and strategic plans.

Annexure 3

There are no material differences between the information in the company's Annexure 3 and the information in the financial documents in its Annual Report.

5 Year summary of performance

		2010	2011	2012	2013	2014
Gross revenue	$	2,563,920	3,078,134	3,626,530	4,062,274	3,983,794
Net profit before tax	$	240,521	-75,786	260,528	302,626	301,107
Total assets	$	1,026,497	2,217,124	2,725,411	2,701,461	2,725,177
Total liabilities	$	197,379	211,212	706,786	557,917	494,756
Total equity	$	829,118	2,005,912	2,018,625	2,143,544	2,230,421



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) 9438 4960
ABN: 86 092 399 730

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