Community Financial Services Victoria Limited

Financial Statements

as at

30 June 2013

Community Financial Services Victoria Limited
ABN 51 092 756 351
Directors' Report

Your directors submit the financial statements of the company for the financial year ended 30 June 2013.

Directors

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

Michael John Duff
Chairman
Occupation: Owner Operator/Company Director
Experience and expertise:
- Past KooWeeRup CFA Captain
Special responsibilities:
- Chairman of the Board
Interests in shares: 30,000 Ordinary Shares

Gordon Douglas Smale
Vice Chairman
Occupation: Maufacturing Manager
Experience and expertise:
- Manager of engineering company
- Former President Pearcedale Recreation Reserve
Special responsibilities:
- Business Growth Sub Committee
- Finance & Budget Sub Committee
- Youth Action Group Sub Committee
Interests in shares: Nil Ordinary Shares

Tania Lyn Hansen
Executive Officer
Occupation: Executive Officer/Company Secretary
Experience and expertise:
- GAICD
- Former Secretary of Lang Lang Town Committee
Special responsibilities:
- All Sub Committees
Interests in shares: 500 Ordinary Shares

Maxwell William Papley
Director
Occupation: Retail Rural Merchandise Proprietor
Experience and expertise:
- Inaugural Chairman CFSV Ltd
Special responsibilities:
- Business Growth Sub Committee
- Youth Action Group Sub Committee
Interests in shares: 30,250 Ordinary Shares

Douglas Hugh Hamilton
Director
Occupation: Grazier
Experience and expertise:
- Former Councillor Cardinia Shire
- Inaugural Vice Chairman CFSV Ltd
Special responsibilities:
- Audit, Governance & Shareholder Liaison Sub Committee
- Human Resources Sub Committee
Interests in shares: 8,600 Ordinary Shares

Maxwell Arthur John Kneebone
Director
Occupation: Grazier
Experience and expertise:
- Member of Rotary Club
Special responsibilities:
- Asset Management Sub Committee
Interests in shares: 31,500 Ordinary Shares

Glenister Malcolm McGregor
Director
Occupation: Semi Retired Grazier
Experience and expertise:
- Former Chairman of Lang Lang Town Committee
- Chairman Lang Lang Community Medical Centre
Special responsibilities:
- Audit, Governance & Shareholder Liaison Sub Committee
- Finance & Budget Sub Committee
Interests in shares: 56,000 Ordinary Shares

Dianne Lesley Loft
Director
Occupation: Business Owner, Newsagent
Experience and expertise:
- Diploma of Retail Management
- 30 years retail experience
Special responsibilities:
- Asset Management Sub Committee
- Human Resources Sub Committee
- Youth Action Group
Interests in shares: Nil Ordinary Shares

Directors *(continued)*

Michael Alan Bushe
Director *(Appointed 25 October 2012)*
Occupation: Builder
Experience and expertise:
- Registered Building Practitioner
- Certificate IV in Occupational Health & Safety.

Special responsibilities:
- Asset Management Sub Committee
- Business Growth Sub Committee

Interest in shares: Nil Ordinary Shares

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

Company Secretary

The company secretary is Tania Hansen. Tania was appointed to the position of Secretary on 16 September 2003. She holds a Bachelor Degree in Linguists and a Bachelor Degree in Behavioural Science. Previously Tania held the position of Treasurer and has a history in the banking sector. She has gained experience whilst involved at committee level on several local community committees. During 2010 Tania completed the Australian Institute of Company Directors (AICD) Company Directors Course. The course covers all aspects of a Director's role within the Australian context.

Principal Activities

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

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

Operating Results

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

Year ended 30 June 2013 $	Year ended 30 June 2012 $
120,634	180,983

Operating and Financial Review

Operations
Community Financial Services Victoria Limited (the Company) is the franchisee for five **Community Bank®** branches of Bendigo Bank. The Company is responsible for the branches located in Lang Lang, Pearcedale, Koo Wee Rup, Narre Warren South and Tooradin & Coastal Villages. The businesses are operated through a franchise agreement between the Company and Bendigo Bank. Bendigo Bank are responsible for the day to day operations of the five branches including products and services, infrastructure, staff training and all relevant banking related decisions. Directors are not involved in the day to day banking operations to any degree and customer confidentiality and privacy is maintained at all times.

Revenue received by the Company from the operations of the businesses is split 50/50 between the Company and Bendigo Bank. From the 50% split received all expenses relating to the operations of the businesses, such as rent, wages, utilities are deducted from the income received. Profit after these expenses are deducted is what the Company is able to invest back into the local communities.

The vision of the Company is "To Help Build Better Communities". Directors are passionate about the future of the local communities and the relationship with each of the five **Community Bank®** branches. The Directors will continue to work in the best interests of the Company by establishing five profitable **Community Bank®** branches. The aim of the businesses is to be able to provide a sustainable income for the communities in which they are located. At present, four of the five branches are profitable, with Tooradin & Coastal Villages branch continuing to grow and hence inch closer to profit.

Investments back into the communities are by way of dividends to shareholders, grants and sponsorships to community groups, clubs and organisation. Each of the **Community Bank®** branches provide much more in terms of community investments than just cash contributions. The branches provide a focal point for the town, a central hub of activity and a strong sense of positive future for the towns. The branches provide five and a half days a week banking for townsfolk and traders. They provide community marquees free of charge to community groups to support community functions. They provide community eftpos machines to community groups to enable electronic transactions at registration days, fetes and fundraising events. Lang Lang **Community Bank®** has a fully serviced Boardroom made available to community groups. Each of the Branch Managers volunteer their time and expertise in office bearer positions for many local clubs and service groups, such as Traders and Business Groups, Rotary and Lions clubs. The branches provide a conduit for discussions with all level of government, particularly local government; City of Casey and Cardinia Shire. Community groups are able to liaise with the Company and Shire representatives about their projects to achieve the best possible financial and social outcomes. Partnerships are becoming increasingly stronger between local government, community organisations and the Company.

The results that the Company has achieved this year are consistent with Directors' expectations and in line with previous year's results. Operating revenue increased by $171,978 to $3,672,708 on the previous year. This is the 50% spilt of revenue made from the businesses.

Charitable donations, sponsorship, advertising and promotion, increased by $125,716 on the previous year. This demonstrates an increased share of revenue being invested into community projects, grants, sponsorships and contributions to the Community Enterprise Foundation (the Foundation). The Foundation is the philanthropic arm of Bendigo Bank. All contributions to the Foundation are a tax effective means for the Company to consider future community projects. Projects in their infancy can be planned, partnerships formed, discussions with governments and key stakeholders undertaken whilst the Foundation administers the funds.

Key drivers of the business enabling Company revenue to continue to grow as expected are continued development of customer business from both existing and new relationships. Through the **Community Bank®** branches, Branch Managers and their branch teams continue to provide outstanding customer service which is consistent with Bendigo Bank's pledge to be Australia's leading customer connected bank. As each branch grows its share of business by assisting existing and new customers achieve their desired financial outcomes, the revenue will increase.

Financial Position (as at 30 June 2013)

Assets
Total assets decreased by $29,466 during the financial year ending 30 June 2013. Whilst cash balances increased by $56,021 to $543,281, intangible assets (including franchise fees) were amortised by $55,769, while fixed assets were depreciated by $36,555.

Liabilities
Total liabilities increased by $25,670, due mainly to an increase in long service leave provisions. The Company is pleased to have a steady staffing compliment. Of the 27 employees at 30 June 2013, 11 had been with the Company for more than 5 years.

Equity & Dividends
Equity in the Company decreased by $55,136 during the financial year due to the payment of a 24 cent fully franked dividend paid in December 2012, totalling $175,770. This dividend was in excess of the current year earnings, resulting in the reduction in equity. In relation to the year ended 30 June 2013, the Company will pay a fully franked final dividend payment of 24 cents per share in December 2013. Both transactions were consistent with the Company's dividend policy.

Discussion of Business Strategies

Business growth is the key driver of historical, current and future business success. The strategy of the Company is very much orientated around business growth. Yearly growth expectations are discussed and agreed upon by Bendigo Bank and the Directors and monitored closely by the Directors. Key examples of strategy in relation to business growth involves, but is not limited to, individual nature of the communities, management, and branch teams personal development and training and relationship building opportunities.

The Company recognises the individuality of each of the Community Bank townships. Each community is unique, with a diverse and rich history, identity and culture. The demographics are different, especially so with Narre Warren South lying South East of Melbourne in a densely populated residential estate. Lang Lang, Pearcedale, Koo Wee Rup and Tooradin are also more traditional small rural locations. The Directors appreciate this individuality and hence encourage and support the Branch managers and branch teams to become part of their communities to understand the needs of their communities.

This is relevant to business strategy, in particular business growth strategies and areas of business growth. The difference in the communities means that business growth opportunities between the communities are different. For example, in the rural communities who have an agricultural history and culture, business growth strategies may target farmers and the associated industries through business banking and rural banking products. Narre Warren South is densely residential and hence home loan markets may be stronger. Marketing strategies around home loan promotion may be more active in Narre Warren South as a result of this. The Directors are able to set marketing strategies around these different demographics and community needs based on information provided by the management team.

Branch Managers and their branch teams are closely monitored in terms of personal development and training. The Directors strongly encourage the continued participation in Bendigo Bank training courses. When areas requiring upskilling are recognized, conversations with the Regional Manager will identify the most appropriate means of training to be undertaken. This encourages a continuum of development for staff and hence succession planning. The knowledge required by Managers and branch teams to adequately fulfil their roles in providing banking services to the customers is immense. With knowledgeable branch teams, customers can have their financial needs fulfilled and the Company should see an increase in market share.

The Company provides opportunities to strengthen relationships with existing and new customers via several key activities. Support for these activities by customers has been very well received and it is a special way the Company can recognise and thank their customers for the support. A complimentary marquee at the Pakenham Cup hosting 120 people, AFL tickets at Etihad stadium and a gala Community Grants function are examples of these special activities. These programs are run via the branch network offering Managers and branch teams the opportunity to interact with their customers.

Business strategies for business growth have been successful this last financial year showing an overall growth in business of $43 million across the 5 sites. The Directors will continue to develop and encourage this strategy and activities there from.

Prospects for Future Financial Years
Prospects for future financial years are expected to be consistent with past years' results. The Directors are confident the business will continue to grow in a competitive financial industry.
Funding for all banks is expensive and likely to remain so, there is strong competition for retail deposits, credit growth is sluggish at best and subsequently, the profitability of banks remains under pressure. These factors continue to place pressure on the 50/50 margin share agreement between Bendigo Bank and its **Community Bank® partners.** As a result some **Community Bank®** companies were (and still are) receiving much more than 50 per cent, as did the Company. Bendigo Bank has conducted a staged approach to restoring this balance. Bendigo Bank will continue to review this remuneration model with its partners to ensure it is fair and equitable for all parties and is as resilient as possible to the fast changing economic environment. The Directors accept that an imbalanced 50/50 margin share split requires adjustment and have worked with its partner, Bendigo Bank for an equitable and reasonable outcome and will continue to do so into the future.

The Directors recognise that customer behaviours are changing from historical branch based banking to the new electronic banking. Hence, Directors have encouraged their branches to develop an 'on line presence' via social media and the Bendigo Bank website. This will assist the branches to connect with existing and new customers in a different way to traditional face to face relationships and hold the Company in good stead for future growth.
The Company has a strong focus on governance and good business practice. Good governance in relation to branch practices mitigates risk for loss and bad debts to the Company. The Directors will continue to oversee good governance and business practice in future years. The Company has always had high expectations compliance standards through the **Community Bank®** branches. This high standard is expected in adherence to **Bendigo Bank®** Policy and Procedure practices. The Directors monitor good practice through Branch Visitation and Branch Lending Results, Branch Audits and Branch Mystery Shopper Results. These reports are conducted by and provided to the Company by Bendigo Bank. Customer confidentiality is maintained at all times. These results have been of a very high standard throughout this last financial year and the Directs expect this to continue in future financial years.

Remuneration Report

Key Management Personnel Remuneration

The Board is responsible for the determination of remuneration packages and policies applicable to the Branch Managers and all staff. Remuneration packages, including a performance based bonus package, are reviewed annually by the Human Resources Sub-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 Management remuneration.

Management performance in relation to remuneration is reviewed annually in accordance with the Company performance review policy. The Board believes the remuneration policy to be appropriate and effective to attract and retain the best local Branch management personnel. Bendigo and Adelaide Bank Limited is responsible for the determination of remuneration packages and policies applicable to seconded Branch Managers and all seconded staff.

Key management personnel also receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

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

Employment agreements were entered into with key management personnel.

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. Branch Managers may be invited to attend Board meetings to provide Directors with an overview of their Branch's performance.

Director Remuneration Policy

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. Director remuneration is reviewed as part of Company strategy planning on a 3 yearly basis. The Executive Officer's remuneration is reviewed annually by the Executive Committee, who then recommend any changes to the full Board for consideration.

Michael Duff received no additional remuneration for services performed in the role Non Executive Chairman. Michael received $2,500 for general Director remuneration.

Tania Hansen received payment for services performed in a role as 'Executive Officer', including, but not limited to, community and public relations, corporate affairs administration, accounts liaison and other Company Secretarial duties. During the 2013 financial year Tania was paid $57,671 (2012: $57,883) and was provided with the use of a company car. Tania also received $2,500 for Director remuneration. Tania also assists Bendigo and Adelaide Bank Limited with their Director Education for Community Bank® Directors. Tania is remunerated by Bendigo and Adelaide Bank Limited at standard commercial rates for this work.

Directors Fees

For the year ended 30 June 2013, the directors received total remuneration, as follows:

	$
Michael John Duff	2,500
Gordon Douglas Smale	2,500
Tania Lyn Hansen	2,500
Maxwell William Papley	2,500
Douglas Hugh Hamilton	2,500
Maxwell Arthur John Kneebone	2,500
Glenister Malcolm McGregor	2,500
Diane Lesley Loft	2,500
	20,000

Remuneration Report *(continued)*

Community Bank® Directors Privileges Package

Community Financial Services Victoria Limited has accepted the Community Bank® Directors Privileges package. The package is available to all directors who can elect to avail themselves of the benefits based on their personal banking with the any of the following branches; Lang Lang, Pearcedale, Koo Wee Rup, Narre Warren South or Tooradin & Coastal Villages. There is no requirement to own BEN shares and there is no qualification period to qualify to utilize the benefits. The package mirrors the benefits currently available to Bendigo and Adelaide Bank shareholders.

Options issued as part of remuneration for the year ended 30 June 2013

No options have been issued as part of remuneration for the year ended 30 June 2013.

Dividends	Year Ended 30 June 2013	
	Cents	$
Dividends paid in the year:		
- As recommended in the prior year report	24	175,770

Significant Changes in the State of Affairs

In the opinion of the directors there were no significant changes in the state of affairs of the company that occurred during the financial year under review not otherwise disclosed in this report or the financial statements.

Matters Subsequent to the End of the Financial Year

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

Likely Developments

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

Environmental Regulation

The company is not subject to any significant environmental regulation.

Directors' Benefits

No director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a director, a firm which a director is a member or an entity in which a director has a substantial financial interest except as disclosed in note 20 to the financial statements. 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.

Indemnification and Insurance of Directors and Officers

The company has indemnified all directors and the manager in respect of liabilities to other persons (other than the company or related body corporate) that may arise from their position as directors or manager of the company except where the liability arises out of conduct involving the lack of good faith.

Disclosure of the nature of the liability and the amount of the premium is prohibited by the confidentiality clause of the contract of insurance. The company has not provided any insurance for an auditor of the company or a related body corporate.

Directors' Meetings

The number of directors' meetings attended by each of the directors of the company during the year were:

	Board Meetings Attended		Committee Meetings Attended									
			Audit & Governance		Business Growth		Human Resources		Asset		Finance & Budget	
	A	B	A	B	A	B	A	B	A	B	A	B
Michael John Duff	9	8	3	-	2	2	-	-	1	-	2	1
Gordon Douglas Smale	9	9	-	-	2	2	-	-	-	-	2	1
Tania Lyn Hansen	9	9	3	3	2	2	-	-	1	1	2	2
Maxwell William Papley	9	9	-	-	2	2	-	-	-	-	1	1
Douglas Hugh Hamilton	9	7	3	3	-	-	-	-	-	-	-	-
Maxwell Arthur John Kneebone	9	7	-	-	-	-	-	-	1	-	-	-
Glenister Malcolm McGregor	9	8	3	3	-	-	-	-	-	-	2	1
Dianne Lesley Loft	9	7	-	-	-	-	-	-	1	1	-	-
Michael Alan Bushe *(Appointed 25 October 2012)*	5	4	-	-	1	1	-	-	-	-	-	-

A - Eligible to attend
B - Number attended

Non Audit Services

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

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

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

- all non-audit services have been reviewed by the audit committee to ensure they do not impact on the impartiality and objectivity of the auditor;
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 8.

Signed in accordance with a resolution of the board of directors at Lang Lang on 19 September 2013.

Michael John Duff, Chairman

Partners in success

Chartered Accountants

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

I declare, that to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2013 there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit
- any applicable code of professional conduct in relation to the audit.

Graeme Stewart
Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550

Dated: 19 September 2013

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Community Financial Services Victoria Limited
ABN 51 092 756 351
Statement of Comprehensive Income
for the Year Ended 30 June 2013

	Notes	2013 $	2012 $
Revenues from ordinary activities	4	3,672,708	3,500,730
Employee benefits expense		(1,657,631)	(1,565,039)
Charitable donations, sponsorship, advertising and promotion		(921,644)	(795,928)
Occupancy and associated costs		(285,548)	(259,957)
Systems costs		(113,739)	(131,068)
Depreciation and amortisation expense	5	(130,036)	(138,067)
General administration expenses		(384,919)	(371,976)
Profit before income tax expense		**179,191**	**238,695**
Income tax expense	6	(58,557)	(57,712)
Profit after income tax expense		120,634	180,983
Total comprehensive income for the year		**120,634**	**180,983**
Earnings per share (cents per share)		c	c
- basic for profit for the year	22	16.47	24.71

The accompanying notes form part of these financial statements

Community Financial Services Victoria Limited
ABN 51 092 756 351
Balance Sheet
as at 30 June 2013

	Notes	2013 $	2012 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	543,281	487,260
Trade and other receivables	8	278,923	281,084
Current tax asset	12	17,786	15,178
Total Current Assets		**839,990**	**783,522**
Non-Current Assets			
Property, plant and equipment	9	406,587	443,142
Financial assets	10	50,000	50,000
Intangible assets	11	317,018	372,787
Deferred tax assets	12	47,731	41,341
Total Non-Current Assets		**821,336**	**907,270**
Total Assets		**1,661,326**	**1,690,792**
LIABILITIES			
Current Liabilities			
Trade and other payables	13	209,947	205,005
Provisions	14	116,665	111,769
Total Current Liabilities		**326,612**	**316,774**
Non-Current Liabilities			
Provisions	14	45,533	29,701
Total Non-Current Liabilities		**45,533**	**29,701**
Total Liabilities		**372,145**	**346,475**
Net Assets		**1,289,181**	**1,344,317**
Equity			
Issued capital	15	607,871	607,871
Retained earnings	16	681,310	736,446
Total Equity		**1,289,181**	**1,344,317**

The accompanying notes form part of these financial statements

Community Financial Services Victoria Limited
ABN 51 092 756 351
Statement of Changes in Equity
for the Year Ended 30 June 2013

	Issued Capital $	Retained Earnings $	Total Equity $
Balance at 1 July 2011	607,871	749,543	1,357,414
Total comprehensive income for the year	-	180,983	180,983
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(194,080)	(194,080)
Balance at 30 June 2012	607,871	736,446	1,344,317
Balance at 1 July 2012	607,871	736,446	1,344,317
Total comprehensive income for the year	-	120,634	120,634
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(175,770)	(175,770)
Balance at 30 June 2013	607,871	681,310	1,289,181

The accompanying notes form part of these financial statements

Community Financial Services Victoria Limited
ABN 51 092 756 351
Statement of Cashflows
for the Year Ended 30 June 2013

	Notes	2013 $	2012 $
Cash Flows From Operating Activities			
Receipts from customers		4,025,690	3,780,733
Payments to suppliers and employees		(3,716,608)	(3,483,911)
Interest received		23,050	21,716
Interest paid		(16)	-
Income taxes paid		(62,613)	(68,207)
Net cash provided by operating activities	17	269,503	250,331
Cash Flows From Investing Activities			
Payments for property, plant and equipment		(37,712)	(25,449)
Net cash used in investing activities		(37,712)	(25,449)
Cash Flows From Financing Activities			
Dividends paid		(175,770)	(194,080)
Net cash used in financing activities		(175,770)	(194,080)
Net increase in cash held		56,021	30,802
Cash and cash equivalents at the beginning of the financial year		487,260	456,458
Cash and cash equivalents at the end of the financial year	7(a)	543,281	487,260

Note 1. Summary of Significant Accounting Policies

a) Basis of Preparation

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

Compliance with IFRS

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

Critical accounting estimates

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

Historical cost convention

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

Comparative figures

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

Adoption of new and revised Accounting Standards

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. Amendments made to AASB 101 Presentation of Financial Statements effective 1 July 2012 now require the statement of comprehensive income to show the items of comprehensive income grouped into those that are not permitted to be reclassified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met. This amendment has not affected the presentation of the statement of comprehensive income of the company in the current period and is not likely to affect future periods.

The company has not elected to apply any pronouncements before their mandatory operative date in the annual reporting period beginning 1 July 2012.

Economic dependency - Bendigo and Adelaide Bank Limited

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank®** branches at Lang Lang, Narre Warren South, Pearcedale, Koo Wee Rup and Tooradin in the state of Victoria.

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

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

Note 1. Summary of Significant Accounting Policies *(continued)*

a) Basis of Preparation *(continued)*

Economic dependency - Bendigo and Adelaide Bank Limited *(continued)*

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

- advice and assistance in relation to the design, layout and fit out of the **Community Bank®** branch;
- training for the branch manager and other employees in banking, management systems and interface protocol;
- methods and procedures for the sale of products and provision of services;
- security and cash logistic controls;
- calculation of company revenue and payment of many operating and administrative expenses
- the formulation and implementation of advertising and promotional programs; and
- sales techniques and proper customer relations.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

b) Revenue

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefit will flow to the company and any specific criteria have been met. Interest and fee revenue is recognised when earned. The gain or loss on disposal of property, plant and equipment is recognised on a net basis and is classified as income rather than revenue. All revenue is stated net of the amount of Goods and Services Tax (GST).

Revenue calculation

The franchise agreement with Bendigo and Adelaide Bank Limited provides for three types of revenue earned by the company. First, the company is entitled to 50% of the monthly gross margin earned by Bendigo and Adelaide Bank Limited on products and services provided through the company that are regarded as "day to day" banking business (ie 'margin business'). This arrangement also means that if the gross margin reflects a loss (that is, the gross margin is a negative amount), the company effectively incurs, and must bear, 50% of that loss.

The second source of revenue is commission paid by Bendigo and Adelaide Bank Limited on the other products and services provided through the company (i.e. 'commission business'). The commission is currently payable on various specified products and services, including insurance, financial planning, common fund, Sandhurst Select, superannuation, commercial loan referrals, products referred by Rural Bank, leasing referrals, fixed loans and certain term deposits (>90 days). The amount of commission payable can be varied in accordance with the Franchise Agreement (which, in some cases, permits commissions to be varied at the discretion of Bendigo and Adelaide Bank Limited). This discretion has been exercised on several occasions previously. For example in February 2011 and February 2013 Bendigo and Adelaide Bank Limited reduced commissions on two core banking products to ensure a more even distribution of income between Bendigo and Adelaide Bank Limited and its **Community Bank®** partners. The revenue share model is subject to regular review to ensure that the interests of Bendigo and Adelaide Bank Limited and **Community Bank®** companies remain balanced.

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

c) Income Tax

Current tax

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

Note 1. Summary of Significant Accounting Policies *(continued)*

c) Income Tax *(continued)*

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

d) Employee Entitlements

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

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

e) Cash and Cash Equivalents

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

f) Trade Receivables and Payables

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

g) Property, Plant and Equipment

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

Note 1. Summary of Significant Accounting Policies *(continued)*

g) Property, Plant and Equipment *(continued)*

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

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

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

h) Intangibles

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

i) Payment Terms

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

j) Borrowings

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

k) Financial Instruments

Recognition and initial measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value plus transaction costs. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset.

Classification and subsequent measurement

(i) *Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

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

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

Note 1. Summary of Significant Accounting Policies *(continued)*

k) Financial Instruments *(continued)*

Classification and subsequent measurement *(continued)*

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

Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period, which will be classified as current assets.

Impairment

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

l) Leases

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

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

Note 1. Summary of Significant Accounting Policies *(continued)*

m) Provisions

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

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

n) Contributed Equity

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

o) Earnings Per Share

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

p) Goods and Services Tax

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

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

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

Note 2. Financial Risk Management

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

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

(i) Market risk

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

(ii) Price risk

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

(iii) Credit risk

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

(iv) Liquidity risk

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

(v) Cash flow and fair value interest rate risk

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

(vi) Capital management

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

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

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

The board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the year ended 30 June 2013 can be seen in the statement of comprehensive income.

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

Note 3. Critical Accounting Estimates and Judgements

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

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

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

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

Taxation

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

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

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

Estimation of useful lives of assets

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

Goodwill

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

The calculations require the use of assumptions.

Impairment of assets

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

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

Note 3. Critical Accounting Estimates and Judgements *(continued)*

Impairment of assets *(continued)*

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

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

Note 4. Revenue from Ordinary Activities

	2013 $	2012 $
Operating activities:		
- services commissions	3,650,229	3,479,168
- other revenue	-	1,219
Total revenue from operating activities	3,650,229	3,480,387
Non-operating activities:		
- interest received	22,479	20,343
Total revenue from non-operating activities	22,479	20,343
Total revenues from ordinary activities	3,672,708	3,500,730

Note 5. Expenses

	2013 $	2012 $
Depreciation of non-current assets:		
- improvements, plant and equipment	46,055	55,593
- motor vehicles	28,212	26,705
Amortisation of non-current assets:		
- franchise fee and franchise renewal fee	55,769	55,769
	130,036	138,067
Bad debts	5,937	4,008

		2013	2012
Note 6. Income Tax Expense		$	$
The components of tax expense comprise:			
- Current tax		64,947	86,381
- Movement in deferred tax		(6,390)	(9,973)
- Adjustments to tax expense of prior periods		-	(18,696)
		58,557	57,712
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:			
Operating profit		179,191	238,695
Prima facie tax on profit from ordinary activities at 30%		53,757	71,609
Add tax effect of:			
- non-deductible expenses		4,800	4,799
- timing difference expenses		6,390	9,973
- other deductible expenses		-	-
		64,947	86,381
Movement in deferred tax	12	(6,390)	(9,973)
Adjustment to tax expense of prior periods		-	(18,696)
		58,557	57,712

Note 7. Cash and Cash Equivalents

Cash at bank and on hand	189,883	151,027
Term deposits	353,398	336,233
	543,281	487,260

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cashflows as follows:

Note 7.(a) Reconciliation of cash

Cash at bank and on hand	189,883	151,027
Term deposits	353,398	336,233
	543,281	487,260

Note 8. Trade and Other Receivables

Trade receivables	256,641	270,740
Prepayments	22,282	10,344
	278,923	281,084

Note 9. Property, Plant and Equipment

	2013 $	2012 $
Improvements, plant and equipment		
At cost	748,474	735,588
Less accumulated depreciation	(427,271)	(381,218)
	321,203	354,370
Motor Vehicles		
At cost	159,025	134,201
Less accumulated depreciation	(73,641)	(45,429)
	85,384	88,772
Total written down amount	406,587	443,142

Movements in carrying amounts:

	2013 $	2012 $
Plant and equipment		
Carrying amount at beginning	354,371	405,511
Additions	12,887	4,453
Disposals	-	-
Less: depreciation expense	(46,055)	(55,593)
Carrying amount at end	321,203	354,371
Motor Vehicles		
Carrying amount at beginning	88,771	93,262
Additions	24,825	38,268
Disposals	-	(16,054)
Less: depreciation expense	(28,212)	(26,705)
Carrying amount at end	85,384	88,771
Total written down amount	406,587	443,142

Note 10. Financial Assets

Available-for-sale financial assets

	2013 $	2012 $
Unlisted investments at cost		
Mt Eliza Community Enterprise Limited	50,000	50,000

Note 11. Intangible Assets

	2013 $	2012 $
Franchise fee		
At cost	133,141	133,140
Less: accumulated amortisation	(105,461)	(105,832)
	27,680	27,308
Renewal processing fee		
At cost	225,706	225,706
Less: accumulated amortisation	(154,876)	(98,735)
	70,830	126,971
Goodwill		
At cost	218,508	218,508
Total written down amount	317,018	372,787

Note 12. Tax	2013 $	2012 $
Current:		
Income tax refundable	17,786	15,178
Non-Current:		
Deferred tax assets		
- employee provisions	48,659	42,441
	48,659	42,441
Deferred tax liability		
- accruals	928	1,100
- deductible prepayments	-	-
	928	1,100
Net deferred tax asset	47,731	41,341
Movement in deferred tax charged to statement of comprehensive income	(6,390)	(9,973)

Note 13. Trade and Other Payables

Trade creditors	209,715	184,566
Other creditors and accruals	232	20,439
	209,947	205,005

Note 14. Provisions

Current:		
Provision for annual leave	62,880	60,171
Provision for long service leave	53,785	51,598
	116,665	111,769
Non-Current:		
Provision for long service leave	45,533	29,701

Note 15. Contributed Equity	2013 $	2012 $
732,375 Ordinary shares fully paid (2012: 732,375)	732,375	732,375
Less: equity raising expenses	(124,504)	(124,504)
	607,871	607,871

(a) *Voting rights*

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

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

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

(b) *Dividends*

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

(c) *Transfer*

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

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

Prohibited shareholding interest

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

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

- They control or own 10% or more of the shares in the company (the "10% limit").
- In the opinion of the board they do not have a close connection to the community or communities in which the company predominantly carries on business (the "close connection test").
- Where the person is a shareholder, after the transfer of shares in the company to that person the number of shareholders in the company is (or would be) lower than the base number (the "base number test"). The base number is 209. As at the date of this report, the company had 227 shareholders.

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

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

Note 15. Contributed Equity *(continued)*

Prohibited shareholding interest *(continued)*

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

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

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

Note 16. Retained Earnings

	2013 $	2012 $
Balance at the beginning of the financial year	736,446	749,543
Net profit from ordinary activities after income tax	120,634	180,983
Dividends paid or provided for	(175,770)	(194,080)
Balance at the end of the financial year	681,310	736,446

Note 17. Statement of Cashflows

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

	2013 $	2012 $
Profit from ordinary activities after income tax	120,634	180,983
Non cash items:		
- depreciation	74,267	82,299
- amortisation	55,769	55,768
- profit on disposal of non-current assets	-	(1,219)
Changes in assets and liabilities:		
- (increase)/decrease in receivables	2,161	(32,986)
- increase in current tax assets	(8,998)	(522)
- increase in deferred tax assets	-	(9,973)
- increase/(decrease) in payables	4,942	(49,516)
- increase in provisions	20,728	25,497
Net cashflows provided by operating activities	269,503	250,331

Note 18. Leases

Operating lease commitments

	2013 $	2012 $
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable - minimum lease payments		
- not later than 12 months	223,525	178,306
- between 12 months and 5 years	250,450	473,975
- greater than 5 years	-	-
	473,975	652,281

The company holds various premises leases for each of the branch locations. The leases generally have a five-year term, with options for additional five year terms. Rent is payable on a monthly basis.

Note 19. Auditor's Remuneration	2013 $	2012 $
Amounts received or due and receivable by the auditor of the company for:		
- audit and review services	6,250	6,550
- share registry services	2,398	1,610
- non audit services	2,157	2,050
	10,805	10,210

Note 20. Director and Related Party Disclosures

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

Michael John Duff

Gordon Douglas Smale

Tania Lyn Hansen

Maxwell William Papley

Douglas Hugh Hamilton

Maxwell Arthur John Kneebone

Glenister Malcolm McGregor

Dianne Lesley Loft

Michael Alan Bushe *(Appointed 25 October 2012)*

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

During the 2013 financial year Community Financial Services Victoria Limited made payments of $93,400.44 (2012: $82,542.27) to Maxwell Kneebone for rental of the branch premises at Lang Lang and Koo Wee Rup. The terms and conditions of the rental arrangements are on a commercial basis.

During the 2013 financial year Community Financial Services Victoria Limited made payments to Larmax Trading of $1,132.32 (2012: $2,894.86). Director Max Papley is the owner of Larmax Trading. The purchase was made on normal commercial terms.

During the 2013 financial year Community Financial Services Victoria Limited made payments to John Duff & Co of $10,132.83 (2012: $14,339.84) for the purchase of motor vehicle fuel. Director Michael Duff is the owner of John Duff & Co. The purchases were made on normal commercial terms.

Note 20. Director and Related Party Disclosures *(continued)*

Directors' Shareholdings	**2013**	**2012**
Michael John Duff	30,000	30,000
Gordon Douglas Smale	-	-
Tania Lyn Hansen	500	500
Maxwell William Papley	30,250	30,250
Douglas Hugh Hamilton	8,600	8,600
Maxwell Arthur John Kneebone	31,500	52,500
Glenister Malcolm McGregor	56,000	56,000
Dianne Lesley Loft	-	-
Michael Alan Bushe *(Appointed 25 October 2012)*	-	-

There was no movement in directors' shareholdings during the year. Related party interest is no longer applicable to 21,000

Note 21. Dividends paid or Provided	**2013 $**	**2012 $**
a. Dividends paid during the year		
100% (2012: 100%) franked dividend for the year ended 30 June 2013 of 24 cents (2012: 26.5 cents)	175,770	194,080
b. Dividends proposed and not recognised as a liability		
100% (2012: 100%) franked dividend - 24 cents (2012: 24 cents) per share	175,770	175,770

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

Dividends proposed will be franked at a rate of 30% (2012: 30%).

c. Franking account balance

	2013 $	2012 $
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	433,565	414,357
- franking debits that will arise from income tax refundable as at the end of the financial year	(17,786)	(15,178)
- franking debits that will arise from the payment of dividends recognised as a liability at the end of the financial year	-	-
Franking credits available for future financial reporting periods:	415,779	399,179
- franking debits that will arise from payment of dividends proposed or declared before the financial report was authorised for use but not recognised as a distribution to equity holders during the period	(75,330)	(75,330)
Net franking credits available	340,449	323,849

Note 22. Earnings Per Share	2013 $	2012 $
(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	120,634	180,983
	Number	Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	732,375	732,375

Note 23. Events Occurring After the Balance Sheet Date

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

Note 24. Contingent Liabilities

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

Note 25. Registered Office/Principal Place of Business

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

Registered Office	Principal Place of Business
29 Westernport Road Lang Lang VIC 3984	29 Westernport Road Lang Lang VIC 3984

26. Segment reporting

The economic entity operates in the service sector where it facilitates community banking services pursuant to a franchise agreement with Bendigo and Adelaide Bank Limited. The economic entity operates in one geographic area being Lang Lang, Pearcedale, Koo Wee Rup, Narre Warren South and Tooradin.

	Total Revenue		Profit from ordinary activities after income tax		Net Assets	
	2013	2012	2013	2012	2013	2012
Geographic Segments	$	$	$	$	$	$
Lang Lang	799,089	796,997	3,933	44,586	286,326	314,894
Pearcedale	932,134	898,688	149,763	151,095	200,124	207,846
Koo Wee Rup	783,965	721,511	65,080	75,831	103,515	120,347
Narre Warren South	805,755	771,574	20,192	62,419	139,890	162,752
Tooradin	351,764	311,959	(118,334)	(152,948)	65,104	98,920
Unallocated	-	-	-	-	494,222	439,558
Total	3,672,708	3,500,729	120,634	180,983	1,289,180	1,344,317

Note 27. Financial Instruments

Net Fair Values

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

Credit Risk

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

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

Interest Rate Risk

Financial instrument	Floating interest rate		Fixed interest rate maturing in						Non interest bearing		Weighted average effective interest rate	
			1 year or less		Over 1 to 5 years		Over 5 years					
	2013 $	2012 $	2013 $	2012 $	2013 $	2012 $	2013 $	2012 $	2013 $	2012 $	2013 %	2012 %
Financial Assets												
Cash and cash equivalents	189,883	151,027	353,398	336,233	-	-	-	-	-	-	3.05	3.47
Receivables	-	-	-	-	-	-	-	-	278,923	281,084	N/A	N/A
Financial Liabilities												
Payables	-	-	-	-	-	-	-	-	209,948	205,004	N/A	N/A

Community Financial Services Victoria Limited
ABN 51 092 756 351
Directors' Declaration

In accordance with a resolution of the directors of Community Financial Services Victoria Limited, we state that:

In the opinion of the directors:

(a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:

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

(ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

(c) the audited remuneration disclosures set out in the remuneration report section of the directors' report comply with Accounting Standard AASB124 Related Party Disclosures and the Corporations Regulations 2001.

This declaration is made in accordance with a resolution of the board of directors.

Michael John Duff, Chairman

Signed on the 19th of September 2013.

Independent auditor's report to the members of Community Financial Services Victoria Limited

Report on the financial report

We have audited the accompanying financial report of Community Financial Services Victoria Limited, which comprises the balance sheet as at 30 June 2013, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and presentation of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making fair accounting estimates that are reasonable in the circumstances. In note 1, the directors also state in accordance with the Accounting Standard AASB 101 Presentation of Financial Statements that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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

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

Independence

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

Auditor's opinion on the financial report

In our opinion:

1) The financial report of Community Financial Services Victoria Limited is in accordance with the *Corporations Act 2001* including giving a true and fair view of the company's financial position as at 30 June 2013 and of its financial performance and its cash flows for the year then ended and complying with Australian Accounting Standards and the Corporations Regulations 2001.

2) The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the remuneration report

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

Auditor's opinion

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

Graeme Stewart
Andrew Frewin Stewart
61 Bull Street Bendigo Vic 3550

Dated: 19 September 2013