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Chairperson's report

For year ending 30 June 2006

On behalf of the Directors I am delighted to have the privilege of bringing to you the first Annual Report of Inverloch & District Financial Enterprises Limited. (The Company)

While the Company was incorporated on 22nd December 2005, the Inverloch & District **Community Bank**® Branch of Bendigo Bank did not take over the operations of the Inverloch Agency of the Bendigo Bank until 27 March 2006. Subsequently, while the report covers a six month period, the financial results of the branch are based on an operating period of three months.

In accordance with established practice for the formation of **Community Bank**® companies, 10 inaugural Directors were elected from the 22 member Steering Committee and have offered their services in a voluntary capacity.

The Directors would like to pay tribute to those people who served on the Steering Committee at various times in the formative stage of what is now proving to be a thriving enterprise. These community-spirited individuals were the people who had the vision and took the initiative to take the first steps toward the creation of a **Community Bank**® branch that would service the needs of the people of Inverloch, Kongwak, Wattlebank, Pound Creek, Lower Tarwin and Venus Bay. Without their hard work and dedication over an 11 month period this project would never have succeeded.

The Steering Committee and subsequently the Company's Board of Directors were greatly encouraged in their efforts by the amazing community support that was evident from the beginning and never wavered. That support manifested itself when the Company Prospectus was launched and the share offer of 750,000 one dollar shares was fully subscribed in just 26 business days. Our communities have supported the establishment of their **Community Bank**® with much enthusiasm and confidence and I am pleased to say this still evident today.

After receiving a thorough briefing from the Bendigo Bank and the Bendigo Stock Exchange (BSX) your Directors voted unanimously to list the Company shares on the BSX and at the same time have Bendigo Bank Share Registry Limited (BBSRL) manage our Share Registry, as we believe these arrangements to be in the best interests of Shareholders.

After calling for expressions of interest for a suitable branch site in the CBD of Inverloch, and after receiving only one response, the Company entered into an agreement in January 2006 with Broadbeach Developments Pty Ltd to construct larger purpose built premises for lease back. The new site is only metres from the existing premises and when completed will be highly functional providing additional car parking and an excellent environment for both customers and staff.

In any service industry and particularly banking, one of the critical success factors is to attract, recruit, train and retain a team of people who are not only pleasant and efficient but who are also committed to the ideals of the business. Before the selection process commenced the Board resolved to second its entire staff from Bendigo Bank. The major benefit of this decision was that it allowed staff already in the employ of

Chairperson's report continued

Bendigo Bank to apply for a position knowing that they would not lose any of their entitlements if they were successful. This resulted in our 3 permanent staff members advancing their careers and transferring from Leongatha, Korumburra and Neerim South branches of the Bank.

The Branch Manager, Jackie Laurie, with 7 years experience with Bendigo Bank and another 23 years experience in delivering financial services is a highly motivated banker with a sound understanding of customer needs. She has quickly won the respect of Directors and we are confident that in conjunction with the Board she will steer the Company effectively and efficiently towards its business objectives. Equally important, we believe she has the skills and competencies to be able to develop an effective team committed to customer service.

After only three months of operation your Directors are pleased with the progress of the branch. Business volumes and account numbers are in line with our expectations, which tend to indicate that the community is continuing to support the venture in the manner indicated by them in the earlier feasibility study.

Based on all the information available to the Directors at this time, we remain confident that the Company will continue to grow largely in line with the original forecasts contained in the prospectus.



Terry Hall JP
Chairman

Manager's report

For year ending 30 June 2006

Our first three months of trading as a **Community Bank**® branch have flown by. The doors of Inverloch & District **Community Bank**® Branch opened on 27 March 2006. I am pleased to report that your branch is on track with budget projections as outlined in the Prospectus.

The level of support we have received from our customers in the local community who require both personal and business banking facilities is most encouraging. I would like to acknowledge the support coming from not only Inverloch, but Tarwin Lower, Venus Bay, Pound Creek, Kongwak, Outtrim and Wattlebank and even further afield.

Our “point of difference” continues to be our welcoming smile, the friendly and relaxed atmosphere in the Branch and no long queues. It is very rewarding to meet a new customer who has been recommended to us by family and friends, responded to our ad on the local radio or articles they have read in the local press.

I would like to acknowledge and thank my dedicated team – Allison Drury, Megan King, Tennille Hall and Delia Perry for their professionalism, hard work and commitment to their roles. It is important to acknowledge it was always a priority of our Board to ensure the staff working in the branch could provide a high level of service to our customers. My team certainly meets those criteria.



By the time this report is delivered, we will have re-located and settled into our new branch, two doors up from our existing site, at 16C Williams Street. It is a new, spacious, purpose-built branch which meets all OH & S requirements. We are extremely proud of it.



Many thanks go to the Directors who have spent countless unpaid hours in getting our branch from a concept, to a commitment to an operating **Community Bank**® branch of Bendigo Bank, owned by our community. The Board's enthusiasm, dedication and professionalism is to be commended, and their assistance and support to my staff and I is most appreciated.

I look forward to the challenges that lie ahead for the next year and to continuing to spread the word about banking the “**Community Bank**® Way”.

A handwritten signature in dark ink, appearing to read "Jackie Laurie".

Jackie Laurie
Manager

Corporate governance statement

For year ending 30 June 2006

The Directors recognise that it is incumbent upon them to establish a structured approach to Corporate Governance and in this context the Board have decided to adopt the ASX “Principles of Good Corporate Governance and Best Practice Recommendations”. The Board also acknowledge that while some aspects of the principles have greater potential for application in larger enterprises, nevertheless they will strive to ensure that their actions are appropriate and that they remain accountable to Shareholders and the community.

In particular the Board have embarked upon a process of progressively developing policies and procedures to govern the operation of the Company and the conduct of Directors, Officers and employees. In particular the Board has adopted processes to encourage continuous improvement in the way they undertake the important role of governance of the Company.



Bendigo Bank Ltd report

For year ending 30 June 2006

What a brilliant year for our Community Bank® network.

During 2005/06, we increased the number of Community Bank® branches across Australia by 27 and continued to inject vital funds back into local communities.

And demand for the Community Bank® model across all states and territories across Australia has not wavered – we are currently working with dozens of rural, regional and suburban communities to bring the success of Community Bank® to their towns.

It is just over eight years since the Community Bank® network began as a pilot in the Victorian towns of Rupanyup and Minyip, and we now have 182 Community Bank® branches.

Those branches have:

- Returned more than \$6 million to local communities and projects;
- Paid almost \$4.5 million in dividends to more than 14,000 local shareholders;
- Received more than \$220 million from Bendigo Bank, including \$76 million in the past year;
- Spent almost \$36 million in their local communities on salaries, rent, cleaning and other operating costs;
- Service more than 480,000 accounts; and
- Have almost \$8 billion of banking business

A renewed focus on community engagement has also played a huge part in the Community Bank® network during the past year.

As part of an internal Bendigo Bank re-structure, thirteen regions became 27 and, more importantly to your community, our Community Bank® branches were brought in under our regional managers, who now have total responsibility for staff, sales and service for the Bank's complete suite of products.

It means we are having more conversations about adding value for customers and we are becoming even more closely aligned with the aspirations of the communities we serve.

Many Community Bank® boards are looking to implement community telco solutions to retain even more local capital in their own regions for local projects.

And, in Victoria, two communities that have already succeeded by opening and operating Community Bank® branches, have now formed Community Enterprise™ steering committees to pilot bio-diesel distribution models, with the ultimate view of operating local bio-diesel production plants.

Eight years after the inception of Community Bank®, Bendigo Bank is still as proud as ever to partner local communities just like yours.

Bendigo Bank Ltd report continued

Congratulations go to the Inverloch & District community board for their hard work and dedication over the past year; and also to your dedicated team of branch staff for providing the highest level of customer service.

Thanks also go to you, the hundreds of shareholders and customers of the Inverloch & District Community Bank® Branch, for making this exciting community partnership possible.



Russell Carrick
Gippsland Regional Manager
Bendigo Bank

Directors' report

For year ending 30 June 2006

Your Directors submit the financial report of the Company for the financial year ended 30 June 2006.

Directors

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

Terrence William Hall JP

Chairman

Age: 63

Business Proprietor & Company Director

Previous proprietor BBL Inverloch Agency

Former Shire President & Bank Manager

Interests in shares: 30,001

Leona Ursula Wardle

Treasurer

Age: 49

Registered Nurse

Nursing experience with aged care

Interests in shares: 2,001

Andrew Neil Forster

Director

Age: 59

Public Accountant

Accounting firm principal

Interests in shares: 50,001

Sybil Lynette Fowler

Director

Age: 60

Business Proprietor & Company Secretary

Primary School Teacher & School Librarian

Interests in shares: 26,001

Alan Keith Gostelow

Secretary

Age: 63

Chief Executive Officer

Ex-Army Officer & Senior Manager of various businesses

Interests in shares: 501

Edward James Walsh

Director

Age: 65

Retired

Many years of business proprietorship

Interests in shares: 501

David Maxwell Walsh

Director

Age: 46

Business Proprietor

Extensive business background in retail shops & hotels

Interests in shares: 30,001

Francis Barry McGarvey

Director

Age: 69

Retired

Former Primary Producer

Interests in shares: 2,001

Directors' report continued

John Frederick Payne

Director

Age: 56

Sales Manager

Former Caravan Park owner/operator

Interests in shares: 2,001

Janette McNair

Director

Age: 47

Speech Pathologist & Business Proprietor

Health Services Manager & Association's Secretary

Interests in shares: 2,001

Directors were in office since 22 December 2005 unless otherwise stated.

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

Company Secretary

The Company Secretary is Alan Gostelow. Alan was appointed to the position of Secretary when the Company was formed on 22 December 2005. Alan is a Fellow of the Australian Institute of Company Directors and currently undertakes the Company Secretarial role for a Company Limited by Guarantee and was previously a Company Secretary for the Proprietary Limited Company.

Principal activities

The principal activities of the Company during the course of the financial year were in providing community banking services under management rights to operate a franchised branch of Bendigo 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 loss of the Company for the financial year after provision for income tax was:

Year ended
30 June 2006
\$
(98,778)

Remuneration report

All Directors perform their duties solely in a voluntary capacity and do not receive or expect any form of remuneration.

The Branch Manager attends all Board meetings and presents a full report to the Board of Directors.

The Branch Manager advises the Directors on a number of issues but does not have any voting rights.

The Branch Manager is a member of two sub-committees.

- (i) Marketing/sponsorship
- (ii) Human resources

Directors' report continued

The Branch Manager is a seconded staff member of Bendigo Bank Limited. Jackie Lawrie started with the entity during March 2006 and was paid between \$10,000 - \$20,000 for that period. The wages are paid via the entity's monthly profit share statement.

Dividends

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

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

The Company was incorporated and commenced trading during the period. The Company purchased the existing agency operation in Inverloch from Bendigo Bank Limited in March 2006 and it plans to relocate the branch to leased premises at 16C Williams Street. The site is currently being fitted out and a payment of \$150,000 towards the cost of this fit out was paid in July 2006. The new branch will be open for business on 21 August 2006.

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

Likely developments

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

Environmental regulation

The Company is not subject to any significant environmental regulation.

Directors' benefits

The Chairman, Terry Hall is the owner of both the existing branch premises and the new branch premises at 16c Williams Street. The amount of rent and outgoings paid in 2006 was: \$8,725.

No other 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.

Directors' report continued

Indemnification and insurance of Directors and Officers

The Company has indemnified all Directors and the Manager in respect of liabilities to other persons (other than the Company or related body corporate) that may arise from their position as Directors or Managers of the Company except where the liability arises out of conduct involving the lack of good faith. The premium paid in respect to this policy is \$2,860.

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:

	Number of Board meetings eligible to attend	Number attended
Terrence William Hall JP	10	10
Alan Keith Gostelow	10	10
Leona Ursula Wardle	10	9
Edward James Walsh	10	10
Andrew Neil Forster	10	5
David Maxwell Walsh	10	9
Sybil Lynette Fowler	10	8
Francis Barry McGarvey	10	7
John Frederick Payne	10	8
Janette McNair	10	7

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.

Directors' report continued

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 Professional Statement F1, 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 30.

Signed in accordance with a resolution of the Board of Directors at Inverloch, Victoria on 18 August 2006.



Terrence William Hall
Chairman



Leona Ursula Wardle
Director

Financial statements

Income statement

For year ending 30 June 2006

	Note	2006 \$
Revenues from ordinary activities	3	57,384
Salaries and employee benefits expense		(173,799)
Advertising and promotion expenses		(363)
Occupancy and associated costs		(8,609)
General administration expenses		(17,479)
Loss from ordinary activities before income tax credit		(142,866)
Income tax credit	4	44,088
Loss from ordinary activities after income tax credit		(98,778)
Loss attributable to members of Inverloch & District Financial Enterprises Limited		(98,778)
Earnings per share (cents per share)		
- basic for profit for the year		(13.17)
- diluted for profit for the year		(13.17)

The accompanying notes form part of these financial statements.

Financial statements continued

Balance sheet

As at 30 June 2006

	Note	2006 \$
Current assets		
Cash assets	5	521,349
Trade and other receivables	6	26,033
Total current assets		547,382
Non-current assets		
Intangibles	7	45,500
Deferred tax assets	8	44,088
Total non-current assets		89,588
Total assets		636,970
Current liabilities		
Trade and other payables	9	6,201
Total current liabilities		6,201
Total liabilities		6,201
Net assets		630,769
Equity		
Contributed equity	10	729,547
Accumulated losses	11	(98,778)
Total equity		630,769

The accompanying notes form part of these financial statements.

Financial statements continued

Equity statement

As at 30 June 2006

	Note	2006 \$
Total equity at the beginning of the financial year		-
Net loss for the year		(98,778)
Net income/expense recognised directly in equity		-
Dividends provided for or paid		-
Shares issued during period		750,010
Equity raising costs during period		(20,463)
Total equity at the end of the financial year		630,769

The accompanying notes form part of these financial statements.

Financial statements continued

Statement of cash flows

As at 30 June 2006

	Note	2006 \$
Cash flows from operating activities		
Cash received from customers		29,839
Cash paid to suppliers and employees		(195,360)
Interest received		2,823
Net outflows from operating activities	12(b)	(162,698)
Cash flows from investing activities		
Payment for intangible assets		(10,000)
Payment for purchase of business		(35,500)
Net cash outflows from investing activities		(45,500)
Cash flows from financing activities		
Proceeds of share issues		750,010
Payment of share issue costs		(20,463)
Net cash inflows from financing activities		729,547
Net decrease in cash held		521,349
Cash at the beginning of the financial year		-
Cash at the end of the financial year	12(a)	521,349

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ending 30 June 2006

Note 1: Summary of significant accounting policies

Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (AIFRS)

These financial statements are the first Inverloch & District Financial Enterprises Limited financial statements and also the first to be prepared in accordance with AIFRSs. AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.

Revenue

Interest and fee revenue is recognised when earned. All revenue is stated net of the amount of Goods and Services Tax (GST). 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.

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 tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of 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

Notes to financial statements continued

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 they related to income taxes levied by the same taxation authority and the Company/consolidated entity intends to settle its current 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 income statement, 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.

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 for 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 ATO are classified as operation cash flows.

Employee entitlements

The provision for employee benefits to wages, salaries and annual leave represents the amount which the Company has a present obligation to pay resulting from employees' services provided up to the balance date. The provision has been calculated on undiscounted amounts based on wage and salary rates expected to be paid and includes related on-costs.

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

Intangibles

The cost of the Company's franchise fee has been recorded at cost and is amortised on a straight line basis at a rate of 20% per annum.

Notes to financial statements continued

Cash

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.

Comparative figures

Comparatives have not been provided as the Company had not commenced operations during the year ending 30 June 2005.

Property, plant and equipment

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

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

Impairment of assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets 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. Goodwill is tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

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

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

Notes to financial statements continued

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

Payment terms

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

Trade receivables and trade payables

Trade 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.

Borrowings

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

Provisions

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

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

Contributed 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.

Notes to financial statements continued

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 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 Bank Limited mitigates this risk significantly.

(v) Cash flow and fair value interest rate risk

Interest-bearing assets are held with Bendigo 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 Bank Limited mitigates this risk significantly.

Notes to financial statements continued

2006

\$

Note 3: Revenue from ordinary activities

Operating activities:

- services commissions	48,285
- other revenue	45
Total revenue from operating activities	48,330

Non-operating activities:

- interest received	9,054
Total revenue from non-operating activities	9,054
Total revenues from ordinary activities	57,384

Note 4: Income tax expense

The prima facie tax on loss from ordinary operations before income tax is reconciled to the income tax credit as follows:

Operating loss	(142,866)
Prima facie tax on loss from ordinary operations at 30%	(42,860)
Add tax effect of:	
- non-deductible expenses	(1,228)
Income tax expense on operating loss	(44,088)

Note 5: Cash assets

Cash at bank and on hand	21,349
Term deposits	500,000
	521,349

Note 6: Trade and other receivables

Trade receivables	19,802
Accrued income - bank interest	6,231
	26,033

Notes to financial statements continued

	2006
	\$

Note 7: Intangible assets

Franchise fee

At cost	10,000
Less: accumulated amortisation	-
Goodwill	35,500
	45,500

Note 8: Deferred tax benefit

Future income tax benefit

Tax losses - revenue	44,088
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Note 9: Trade and other payables

Trade creditors	3,601
Other creditors & accruals	2,600
	6,201

Note 10: Contributed equity

750,010 Ordinary shares fully paid of \$1 each	750,010
Less: equity raising expenses	(20,463)
	729,547

Note 11: Accumulated losses

Balance at the beginning of the financial year	-
Net loss from ordinary activities after income tax	(98,778)
Dividends paid	-
Balance at the end of the financial year	(98,778)

Notes to financial statements continued

2006

\$

Note 12: Statement of cash flows

(a) Reconciliation of cash

Cash at bank and on hand	21,349
Term deposit	500,000
	521,349

(b) Reconciliation of loss from ordinary activities after tax to net cash provided by/(used in) operating activities

Loss from ordinary activities after income tax	(98,778)
Non cash items:	
- depreciation	-
- amortisation	-
Changes in assets and liabilities:	
- (increase)/decrease in receivables	(26,033)
- (increase)/decrease in other assets	(44,088)
- increase/(decrease) in payables	6,201
Net cashflows provided by/(used in) operating activities	(162,698)

Note 13: Auditors' remuneration

Amounts received or due and receivable by the Auditor of the Company for:

- audit & review services	2,600
- other services in relation to the Company	3,845
	6,445

Notes to financial statements continued

Note 14: Director and related party disclosures

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

Terrence William Hall JP
Alan Keith Gostelow
Leona Ursula Wardle
Edward James Walsh
Andrew Neil Forster
David Maxwell Walsh
Sybil Lynette Fowler
Francis Barry McGarvey
John Frederick Payne
Janette McNair

The Chairman, Terry Hall is the owner of both the existing branch premises and the new branch premises at 16c Williams Street. The amount of rent and outgoings paid in 2006 was: \$8,725.

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

Directors shareholdings	2006
Terrence William Hall JP	30,001
Alan Keith Gostelow	501
Leona Ursula Wardle	2,001
Edward James Walsh	501
Andrew Neil Forster	50,001
David Maxwell Walsh	30,001
Sybil Lynette Fowler	26,001
Francis Barry McGarvey	2,001
John Frederick Payne	2,001
Janette McNair	2,001
	2006
	¢

Note 15: Earnings per Share

Losses per share for the financial year were: (13)

Notes to financial statements continued

Note 16: Reconciliation and equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under AIFRS

Entities complying with AIFRS for the first time are required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS would be made, retrospectively, against opening retained earnings as at 1 July 2004.

In the Company's opinion, there have been no material impacts in relation to the financial report for the year ended 30 June 2006. There are no impacts to be disclosed.

Impact on the income statement Nil.

Impact on the balance sheet Nil.

Note 17: Subsequent events

The Company was incorporated and commenced trading during the period. The Company purchased the existing agency operation in Inverloch from Bendigo Bank Limited in May 2006 and it plans to relocate the branch to leased premises at 16C Williams Street. The site is currently being fitted out and a payment of \$150,000 towards the cost of this fit out was paid in July 2006. The new branch will be open for business 21 August 2006.

Note 18: Contingent liabilities

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

Note 19: Segment reporting

The economic entity operates in the financial services sector where it provides banking services to its clients. The economic entity operates in one geographic area being Inverloch and surrounding districts of Victoria.

Note 20: Registered office/principal place of business

The registered office and principal place of business is:

Registered office	Principal place of business
10 Williams Street, Inverloch, VIC 3996	16A Williams Street, Inverloch, VIC 3996

Notes to financial statements continued

Note 21: Financial instruments

Net fair values

The net fair values of financial assets and liabilities approximate the carrying values as disclosed in the Statement of Financial Position. 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 Statement of Financial Position 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	Fixed interest rate maturing in				Non Interest bearing	Weighted average effective interest rate
	Floating interest rate	1 year or less	Over 1 to 5 years	Over 5 years		
	2006	2006	2006	2006		
	\$	\$	\$	\$		%

Financial assets

Cash assets	11,146	-	-	-	-	.05
Cash management	10,203	-	-	-	-	4.5
Term deposit	-	500,000	-	-	-	5.7
Receivables	-	-	-	-	26,033	N/A

Financial liabilities

Payables	-	-	-	-	6,201	N/A
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Directors' declaration

In accordance with a resolution of the Directors of Inverloch & District Financial Enterprises 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 2006 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.

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



Terrence William Hall
Chairman



Leona Ursula Wardle
Director

Signed on 18 August 2006.

Independent audit report



INDEPENDENT AUDIT REPORT

PO Box 454
Bendigo VIC 3552
61-65 Bull Street
Bendigo VIC 3550
Phone (03) 5443 0344
Fax (03) 5443 5304
afsb@afsbendigo.com.au
www.afsbendigo.com.au
ABN 51 661 793 337

To the members of Inverloch & District Financial Enterprises Limited

Scope

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, a summary of significant accounting policies and other explanatory notes and the directors' declaration for Inverloch & District Financial Enterprises Limited for the financial year ended 30 June 2006.

The company has disclosed information about the compensation of key management personnel ("compensation disclosures"), as required by Accounting Standard AASB 124 Related Party Disclosures ("AASB 124") under the heading "remuneration report" in the directors' report as permitted by the ASIC class order 06/50. These compensation disclosures are identified in the directors' report as being subject to audit. The remuneration report also contains information not subject to audit.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the compensation disclosures contained in the directors' report.

Audit approach

We have conducted an independent audit of the financial report and compensation disclosures in order to express an opinion on them to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement and the compensation disclosures comply with AASB 124. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's financial position, and performance as represented by the results of its operations, its changes in equity and their cash flows and whether the compensation disclosures comply with AASB 124.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion:

1. the financial report of Inverloch & District Financial Enterprises 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 2006 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations; and
2. the compensation disclosures that are contained in the directors' report under the heading "remuneration report" comply with Accounting Standard AASB 124 *Related Party Disclosures*.

DAVID HUTCHINGS

ANDREW FREWIN & STEWART

61-65 Bull Street, Bendigo, VIC 3550

Dated this 5th day of September 2006

Auditor's independence declaration



PO Box 454
Bendigo VIC 3552
61-65 Bull Street
Bendigo VIC 3550
Phone (03) 5443 0344
Fax (03) 5443 5304
afs@afsbendigo.com.au
www.afsbendigo.com.au
ABN 51 063 793 337

As lead Auditor for the audit of Inverloch & District Financial Enterprises Limited for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been:

- a) no contraventions of the Auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Inverloch & District Financial Enterprises Limited.

David Hutchings
Auditor Partner

Andrew Frewin & Stewart

Bendigo

18 August 2006

