Clovelly Financial
Services Limited
ABN 69 097 378 740

2008 annual report

Contents

Chairman's report

For year ending 30 June 2008

Welcome to the seventh Annual Report of Clovelly Community Financial Services Ltd.

Our partner, Bendigo Bank, continues to support us and I would like to thank Wayne Simpson for his assistance during the past year.

Current position

The 2007-08 financial year has been a year of great achievement. Our final year end profit of ($141,785) was well above budget. This has enabled us to further reduce our debt whilst increasing sponsorships back to the community and return our second dividend to the shareholders.

Our team

The past year's performance has been a reflection of the stability in our **Community Bank®** branch. Our Branch Manager, Peter Swan, has settled into his position and has developed a close knit team. On behalf of the Board of Directors, I would like to thank Peter and the staff for delivering outstanding service to our customers and shareholders. The professional and friendly manner with which they go about their duties underscores the success of our **Community Bank®** branch.

Board

During the year the make up of the Board has changed due to retirements and subsequent replacement of Directors. Terry Woodward and Debra Christopher have retired from the Board and I would like to express my thanks for their contributions as voluntary Directors-your enthusiasm and support will be missed. Joining the Board we welcome Tom Pelle and Merran Lang. Tom brings human resource skills to the Board and knowledge in governance and finance. Merran has experience in media and marketing. I would like to thank you both for the fresh approach you bring to the Board.

Community participation

During the financial year 2007-08, we have distributed $32,470 in sponsorships to the following organizations:

- Clovelly Junior Rugby Club
- Clovelly Men's Bowling Club
- Clovelly SLSC (new rescue board with logo)
- Clovelly Crocodiles
- Coastal Cricket Club
- Bondi SLSC (new rescue board with logo)
- Bondi Community Street Project

Chairman's report continued

- Bronte Bowling club (mats, jacks, bowls)
- Coogee (Chamber of Commerce) Family Fun Day
- P.O.W. Ride for Life (bronze sponsorship)
- Queens Park Touch Football
- Maroubra United Football Club
- Night Sky Productions (Coogee Arts Festival)
- Randwick Council Older (Older means well being and Older Persons Expo)
- Randwick Bowling Club (mats, jacks, bowls)
- Sydney Children's hospital
- Tamarama SLSC (new rescue board with logo)
- The Junction Neighbourhood Centre

During 2008-09 financial year our sponsorships will increase, and despite the volatility of the financial markets, we are committed to the local community and the provision of local banking services.

Michael DeNavi
Chairman

Manager's report

For year ending 30 June 2008

The 2007/08 financial year has been pivotal for the Clovelly **Community Bank®** Branch of Bendigo Bank. Business has grown consistently and we are seeing expansion in the number of client accounts and products per customer. Lending approvals have increased 173% and funding is up 118% on last year with deposits rising by 238%.

The personalised and efficient service, the extra effort we go to, the expertise we offer and our support to the community are making us the preferred choice for existing and prospective clients.

Congratulations and thanks to our Board of Directors for their tireless commitment to the success of the bank. The Board meetings, the many behind the scene voluntary hours, their representation at events and community involvement have contributed greatly to this year's outstanding outcome.

I would like to especially thank our hard working team Sally, Belinda, Nazife, Natasha and Dan. Their commitment in helping and providing courteous, professional service to our clients is indeed a credit to them, and I am always getting thank you calls and letters of appreciation from clients and members of the community. Recently a client stated "it is so good to be able to go to our bank, be personally greeted by name and know that our request will be followed through."

It has been six years since we opened our doors after local residents and businesses had the vision and commitment to partner with Bendigo Bank and make their own **Community Bank®** branch a reality. With the restoration of such an essential service, the Clovelly business precinct is now a vibrant and friendly hub of activity. Shareholders, volunteers, and supporters can be very proud of what they have achieved and the service that is being provided to the Eastern suburbs.

As we look forward to another year, volatility and uncertainty in financial markets will prove to be both challenging and rewarding. With our industry leading satisfaction ratings, a focus on customers, communities and partners, I believe we are well positioned to capitalise on the solid foundations we have laid and deliver increasing benefits to our local community and beyond.

P. Swan.

Peter Swan
Manager

Director’s report

For year ending 30 June 2008

Your Directors submit the financial report of the Company for the financial year ended 30 June 2008.

Directors

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

Michael Joseph Denavi
Chairperson
Business proprietor

Alexandra Halina Maria Szulikowska
Director / Secretary
Senior Analyst / Programmer

Jonathon Henry Hancock
Director
Stockbroker

Debbra Christopher
Director
Interior decorator

Tom Pelle (appointed 23 October 2007)
Director
Public Servant

Terry James Woodward (resigned 26 February 2008)
Director
Retired

Andrew Winters
Director
Marketing Manager

Libbi Lumb
Director
Registered Nurse / Manager

Janet Kidson
Director
Office Manager

Merran Lang (appointed 23 October 2007)
Director
Advertising & Marketing Consultant

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

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

Principal activities

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

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

Director's report continued

Operating results

Operations have performed very well, and above expectations. The profit of the Company for the financial year after provision for income tax is $99,020 (2007: $84,992).

	Year ended 30 June 2008	
Dividends	**Cents per share**	**$**
Dividends paid in the year:		
- prior year final dividend	3	18,909

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 period under review not otherwise disclosed in this report.

Significant events after the balance date

There are no matters or circumstances that have arisen since the end of the financial period 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 periods.

Likely developments

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

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. 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 Managers of the Company except where the liability arises out of conduct involving the lack of good faith.

Director’s report continued

Directors meetings

The number of Directors meetings attended by each of the Directors of the Company during the year were:

Number of meetings held:	**10**
Number of meetings attended:	
Michael Denavi	10
Jonathon Hancock	4
Alexandra Szulikowska	10
Andrew Winters	6
Janet Kidson	8
Libbi Lumb	4
Debbra Christopher	5
Terry James Woodward (resigned 26 February 2008)	5
Tom Pelle (appointed 23 October 2007)	6
Merran Lang (appointed 23 October 2007)	6

Company Secretary

Alexandra Szulikowska was appointed to the position on 18 May 2005. Alexandra Szulikowska has a QA certification from the Australian Computer Society and holds a post-graduate diploma in Information Systems. She has run her own computer consultancy business for the past ten years.

Corporate governance

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

(a) The establishment of an audit committee. Members of the audit committee are Alexandra Szulikowska and Janet Kidson;

(b) Director approval of operating budgets and monitoring of progress against these budgets;

(c) Ongoing Director training; and

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

Auditor independence declaration

The Directors received the following declaration from the Auditor of the Company:

Richmond Sinnott & Delahunty

Chartered Accountants

Richmond Sinnott & Delahunty

Chartered Accountants

172 McIvor Road
PO Box 30
Bendigo. 3552
Ph. 03 5443 1177
Fax. 03 5444 4344
E-mail: rsd@rsdadvisors.com.au

Auditor's independence declaration

In relation to our audit of the financial report of Clovelly Community Financial Services Limited for the financial year ended 30 June 2008, to the best of my knowledge and belief, there have been no contraventions of the Auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Warren Sinnott

Partner

Richmond Sinnott & Delahunty

10 September 2008

Signed in accordance with a resolution of the Board of Directors at Clovelly, NSW on 10 September 2008.

Michael Denavi

Chairperson

Financial statements

Income statement
For year ending 30 June 2008

	Note	2008 $	2007 $
Revenues from ordinary activities	2	782,301	668,982
Employee benefits expense	3	(288,926)	(228,012)
Charitable donations & sponsorship		(32,470)	(22,124)
Depreciation and amortisation expense	3	(32,348)	(31,048)
Finance costs	3	(8,341)	(16,427)
Administration & other expenses from ordinary activities		(278,431)	(249,214)
Profit before income tax expense		**141,785**	**122,157**
Income tax expense	4	42,765	37,165
Profit after income tax expense		**99,020**	**84,992**
Earnings per share (cents per share)			
- basic for profit for the year	22	15.71	13.48
- diluted for profit for the year	22	15.71	13.48
- dividends paid per share	21	3.00	2.00

The accompanying notes form part of these financial statements.

Balance sheet
As at 30 June 2008

	Note	2008 $	2007 $
Current assets			
Cash assets	6	73,797	17,430
Receivables	7	72,493	54,673
Total current assets		**146,290**	**72,103**
Non-current assets			
Property, plant and equipment	8	139,550	145,920
Deferred income tax asset	4	98,006	140,771
Intangible assets	9	44,172	57,290
Total non-current assets		**281,728**	**343,981**
Total assets		**428,018**	**416,084**
Current liabilities			
Payables	10	60,071	28,374
Interest bearing liabilities	11	33,251	145,437
Provisions	12	24,571	12,259
Total current liabilities		**117,893**	**186,070**
Total liabilities		**117,893**	**186,070**
Net assets		**310,125**	**230,014**
Equity			
Share capital	13	630,284	630,284
Accumulated losses	14	(320,159)	(400,270)
Total equity		**310,125**	**230,014**

The accompanying notes form part of these financial statements.

Statement of cash flows
As at 30 June 2008

	Note	2008 $	2007 $
Cash flows from operating activities			
Cash receipts in the course of operations		764,460	719,820
Cash payments in the course of operations		(556,822)	(557,915)
Interest paid		(8,341)	(16,427)
Interest received		21	32
Net cash flows from operating activities	**15b**	**199,318**	**145,510**
Cash flows from investing activities			
Payments for property, plant and equipment		(12,860)	-
Payment for franchise fee		-	(50,000)
Net cash flows used in investing activities		**(12,860)**	**(50,000)**
Cash flows from financing activities			
Repayment of borrowings		(112,186)	(93,092)
Dividends paid		(17,905)	(11,658)
Net cash flows from financing activities		**(130,091)**	**(104,750)**
Net increase/(decrease) in cash held		**56,367**	**(9,240)**
Add opening cash brought forward		17,430	26,670
Closing cash carried forward	**15a**	**73,797**	**17,430**

The accompanying notes form part of these financial statements.

Statement of changes in equity
As at 30 June 2008

	Note	2008 $	2007 $
SHARE CAPITAL			
Ordinary shares			
Balance at start of year		630,284	630,284
Issue of share capital		-	-
Share issue costs		-	-
Balance at end of year		**630,284**	**630,284**
Accumulated losses			
Balance at start of year		(400,270)	(472,656)
Profit after income tax expense		99,020	84,992
Dividends paid		(18,909)	(12,606)
Balance at end of year		**(320,159)**	**(400,270)**

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ending 30 June 2008

Note 1. Basis of preparation of the financial report

(a) Basis of accounting

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and applicable Australian Accounting Standards and other mandatory professional reporting requirements.

The financial report has been prepared on an accruals basis and is based on historical costs (except for land and buildings and available-for-sale financial assets that have been measured at fair value) 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.

The financial report was authorised for issue by the Directors on 10 September 2008.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS'). Australian Accounting Standards that have been recently issued or amended, but are not yet effective, have not been adopted in the preparation of this financial report.

(c) Significant accounting policies

The following is a summary of the material accounting policies adopted. The accounting policies have been consistently applied and are consistent with those applied in the 30 June 2007 financial statements.

Income tax

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

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

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

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

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

Notes to the financial statements continued

Note 1. Basis of preparation of the financial report (continued)

Property, plant and equipment

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

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

Class of asset	Depreciation rate
Leasehold improvements	7.5%
Property, plant & equipment	7.5 - 25%

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Recoverable amount of assets

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

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 cash flow statement 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 operating cash flows.

Notes to the financial statements continued

Note 1. Basis of preparation of the financial report (continued)

Employee benefits

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

Establishment costs have been initially recorded at cost and amortised on a straight line basis at a rate of 20% per annum.

Cash

Cash on hand and in banks are stated at nominal value.

For the purposes of the cash flow statement, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts.

Comparative figures

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

Revenue

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

Receivables and payables

Receivables and payables are non interest bearing and generally have payment terms of between 30 and 90 days. Receivables are recognised and carried at original invoice amount less a provision for any uncollected debts. Liabilities for trade creditors and other amounts are carried at cost that is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Interest bearing liabilities

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

Notes to the financial statements continued

Note 1. Basis of preparation of the financial report (continued)

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.

	2008 $	**2007 $**
Note 2. Revenue from ordinary activities		
Operating activities		
- services commissions	781,746	667,075
- other revenue	534	1,875
Total revenue from operating activities	**782,280**	**668,950**
Non-operating activities:		
- interest received	21	32
Total revenue from non-operating activities	**21**	**32**
Total revenue from ordinary activities	**782,301**	**668,982**

Note 3. Expenses

	2008 $	2007 $
Employee benefits expense		
- wages and salaries	262,556	208,481
- superannuation costs	23,627	18,763
- workers' compensation costs	2,743	768
	288,926	**228,012**

	2008 $	2007 $
Note 3. Expenses (continued)		
Depreciation of non-current assets:		
- plant and equipment	19,230	17,930
Amortisation of non-current assets:		
- intangibles	13,118	13,118
	32,348	**31,048**
Finance costs:		
- Interest paid	8,341	16,427
Bad debts	3,744	568

Note 4. Income tax expense

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

	2008 $	2007 $
Prima facie tax on profit before income tax at 30%	42,536	36,647
Add tax effect of:		
- Non-deductible expenses	229	518
Current income tax expense	**42,765**	**37,165**
Income tax expense	**42,765**	**37,165**
Deferred income tax asset		
Future income tax benefits arising from tax losses are recognised at reporting date as realisation of the benefit is regarded as probable.	**98,006**	**140,771**

Note 5. Auditors' remuneration

Amounts received or due and receivable by Richmond, Sinnott & Delahunty for:

	2008 $	2007 $
- Audit or review of the financial report of the Company	**3,650**	**3,650**

Notes to the financial statements continued

	2008 $	2007 $

Note 6. Cash assets

Cash at bank and on hand	**73,797**	**17,430**

Note 7. Receivables

Trade debtors	67,478	54,053
Other debtors	4,895	500
Other deposits	120	120
	72,493	**54,673**

Note 8. Property, plant and equipment

Office equipment		
At cost	14,112	3,562
Less accumulated depreciation	(3,994)	(2,139)
	10,118	**1,423**
Leasehold improvements		
At cost	233,502	231,192
Less accumulated depreciation	(104,070)	(86,695)
	129,432	**144,497**
Total written down amount	**139,550**	**145,920**
Movements in carrying amounts		
Office equipment		
Carrying amount at beginning of year	1,423	2,014
Additions	10,550	-
Disposals	-	-
Depreciation expense	(1,855)	(591)
Carrying amount at end of year	**10,118**	**1,423**

	2008 $	2007 $

Note 8. Property, plant and equipment (continued)

Leasehold improvements		
Carrying amount at beginning of year	144,497	161,836
Additions	2,310	-
Disposals	-	-
Depreciation expense	(17,375)	(17,339)
Carrying amount at end of year	**129,432**	**144,497**

Note 9. Intangible assets

Franchise fee		
At cost	50,000	50,000
Less accumulated amortisation	(10,000)	-
	40,000	**50,000**
Preliminary expenses		
At cost	15,589	15,589
Less accumulated amortisation	(11,417)	(8,299)
	4,172	**7,290**
	44,172	**57,290**

Note 10. Payables

Trade creditors	12,729	-
GST payable	19,431	10,102
Dividends payable	1,952	948
Other creditors and accruals	25,959	17,324
	60,071	**28,374**

Notes to the financial statements continued

	2008 $	2007 $

Note 11. Interest bearing liabilities

Bank loan	**33,251**	**145,437**

Bank loans are repayable monthly over a five year term.

Interest is recognised at an average rate of 10.65% (2007: 7.99%).

Note 12. Provisions

Employee benefits	24,571	12,259
Number of employees at year end	**6**	**5**

Note 13. Share capital

630,284 Ordinary shares fully paid of $1 each	**630,284**	**630,284**

Note 14. Accumulated losses

Balance at the beginning of the financial year	(400,270)	(472,656)
Dividends paid	(18,909)	(12,606)
Profit after income tax	99,020	84,992
Balance at the end of the financial year	**(320,159)**	**(400,270)**

Note 15. Cash flow statement

(a) Reconciliation of cash		
Cash assets	**73,797**	**17,430**
(b) Reconciliation of profit after tax to net cash flows from operating activities		
Profit after income tax	99,020	84,992
Non cash items		
- Depreciation	19,230	17,930
- Amortisation	13,118	13,118

Note 15. Cash flow statement (continued)

Changes in assets and liabilities

	2008 $	2007 $
- (Increase) decrease in receivables	(17,820)	(6,102)
- Increase (decrease) in payables	30,693	(7,129)
- Increase (decrease) in provisions	12,312	5,536
- (Increase) decrease in deferred income tax asset	42,765	37,165
Net cash flows from operating activities	**199,318**	**145,510**

Note 16. Director and related party disclosures

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

Michael Denavi

Jonathon Hancock

Alexandra Szulikowska

Andrew Winters

Janet Kidson

Libbi Lumb

Debbra Christopher

Terry James Woodward (resigned 26 February 2008)

Tom Pelle (appointed 23 October 2007)

Merran Lang (appointed 23 October 2007)

No related party transaction occurred during the year. No Director's fees have been paid as the positions are held on a voluntary basis.

Notes to the financial statements continued

Note 16. Director and related party disclosures (continued)

Directors shareholdings	**2008**	**2007**
Michael Denavi	1	1
Jonathon Hancock	1,000	1,000
Alexandra Szulikowska	-	-
Andrew Winters	1,000	1,000
Janet Kidson	10,000	10,000
Libbi Lumb	500	500
Debbra Christopher	-	-
Terry James Woodward (resigned 26 February 2008)	-	-
Tom Pelle (appointed 23 October 2007)	2,000	2,000
Merran Lang (appointed 23 October 2007)	-	-

Each share held is valued at $1 and is fully paid. The above holdings are held personally or in associated entities. There was no change in shareholdings during the year.

Note 17. Subsequent events

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

Note 18. Contingent liabilities

Clovelly Community Financial Services Limited has provided a guarantee to secure the lease of the bank premises from Q4 & C4 Investments to the value of $20,378 (2007: $20,378).

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 Clovelly, NSW.

Note 20. Corporate information

Clovelly Community Financial Services Ltd is a Company limited by shares incorporated in Australia.

The registered office and principal place of business is:
226 Clovelly Road,
Clovelly NSW 2031

	2008 $	2007 $

Note 21. Dividends paid or provided for on ordinary shares

Dividends paid during the year

Previous year final - Unfranked dividends - 3 cents per share (2007: 2 cents per share)	**18,909**	**12,606**

Note 22. Earnings per share

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

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

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

Profit after income tax expense	**99,020**	**84,992**
Weighted average number of ordinary shares for basic and diluted earnings per share	**630,284**	**630,284**

Note 23. Financial risk management

The Company has exposure to credit risk, liquidity risk and market risk from their use of financial instruments.

This note presents information about the Company's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

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

Note 23. Financial risk management (continued)

(a) Credit risk

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

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. The Company's maximum exposure to credit risk at reporting date was:

	Carrying amount	
	2008	**2007**
	$	**$**
Cash assets	73,797	17,430
Receivables	72,493	54,673
	146,290	**72,103**

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

None of the assets of the Company are past due (2007: nil past due) and based on historic default rates, the Company believes that no impairment allowance is necessary in respect of assets not past due.

The Company limits its exposure to credit risk by only investing in liquid securities with Bendigo and Adelaide Bank Ltd.

(b) Liquidity risk

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

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

Note 23. Financial risk management (continued)

(b) Liquidity risk (continued)

The following are the estimated contractual maturities of financial liabilities, including estimated interest payments.

	Carrying amount $	Contractual cash flows $	1 year or less $	over 1 to 5 years $	more than 5 years $
30 June 2008					
Payables	60,071	(60,071)	(60,071)	-	-
Interest bearing liabilities	33,251	(34,567)	(34,567)	-	-
	93,322	**(94,638)**	**(94,638)**	**-**	**-**
30 June 2007					
Payables	28,374	(28,374)	(28,374)	-	-
Interest bearing liabilities	145,437	(171,760)	(39,520)	(132,240)	-
	173,811	**(200,134)**	**(67,894)**	**(132,240)**	**-**

(c) Market risk

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

Interest rate risk

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

Sensitivity analysis

At the reporting date the interest rate profile of the Company's interest bearing financial instruments was:

	Carrying amount	
	2008	**2007**
	$	**$**
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	-	-
	-	**-**
Variable rate instruments		
Financial assets	73,797	17,430
Financial liabilities	(33,251)	(145,437)
	40,546	**(128,007)**

Note 23. Financial risk management (continued)

(c) Market risk (continued)

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed interest rate financial assets or liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have no impact on profit or retained earnings. For the analysis performed on the same basis as at 30 June 2007 there was also no impact. As at both dates this assumes all other variables remain constant.

(d) 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 year end.

(e) 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 2008 can be seen in the Income Statement.

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

Director's declaration

In accordance with a resolution of the Directors of Clovelly Community Financial Services Limited, I 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 2008 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and Corporations Regulations 2001; 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.

Michael Denavi
Chairperson

Signed at Clovelly on 10 September 2008.

Independent audit report

Richmond Sinnott & Delahunty
Chartered Accountants

Partners:
Kenneth J Richmond
Warren J Sinnott
Philip P Delahunty
Brett A Andrews

10 September 2008

The Directors
Clovelly Community Financial Services Ltd
16 Denning Street
COOGEE NSW 2034

Dear Directors

We have now completed our audit of the financial report of Clovelly Community Financial Services Limited for year ended 30 June 2008. Subject to the Board of Directors adopting the financial report, we are in a position to issue an unqualified audit opinion on the company's financial report.

1. Overview of Audit Approach

Our audit was designed in accordance with Australian Auditing Standards (AUS), which provides for reasonable, rather than absolute, assurance that the financial report is free of material misstatement. The nature and scope of the audit work performed was designed to achieve our primary goal of supporting the audit opinion on the financial report.

2. Operations

2.1 Income Statement

	30 June 2008 $	30 June 2007 $
Revenue from ordinary activities	782,301	668,982
Employment benefits expense	(288,926)	(228,012)
Charitable donations & sponsorship	(32,470)	(22,124)
Depreciation & amortisation expenses	(32,348)	(31,048)
Finance costs	(8,341)	(16,427)
Administration and other operating expenses	(278,431)	(249,214)
Profit before income tax	**141,785**	**122,157**
Income tax expense	42,765	37,165
Profit after income tax	**99,020**	**84,992**

2.2 Balance Sheet

	30 June 2008 $	30 June 2007 $
Liquid assets and cash	146,290	72,103
Other assets	281,728	343,981
Total assets	**428,018**	**416,084**
Total liabilities	**117,893**	**186,070**
Shareholders' equity	**310,125**	**230,014**

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ABN 60 616 244 309

3. Auditing/Accounting Issues

During our audit we did not note any significant issues.

4. Summary of Audit Differences

There are no material audit differences that have not been included in the financial report for Clovelly Community Financial Services Limited.

Our work is not primarily directed towards the discovery of weaknesses or the detection of fraud or other irregularities, other than those that would influence us in forming our audit opinion.

Should you have any queries in relation to the above or any other matters please do not hesitate to contact either Stephen Brown or myself.

Yours sincerely

W Sinnott.

Warren Sinnott
Partner
Richmond Sinnott & Delahunty

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Clovelly **Community Bank**® Branch
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Phone: (02) 9665 0099 Fax: (02) 9665 0100

Franchisee: Clovelly Financial Services Limited
222-226 Clovelly Road, Clovelly NSW 2031
ABN 69 097 378 740

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ABN 11 068 049 178. AFSL 237879. (BMPAR8056) (09/08)