

Clovelly Financial
Services Limited

ABN 69 097 378 740

annual report 2011

Clovelly **Community Bank**[®] Branch

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Chairman's report

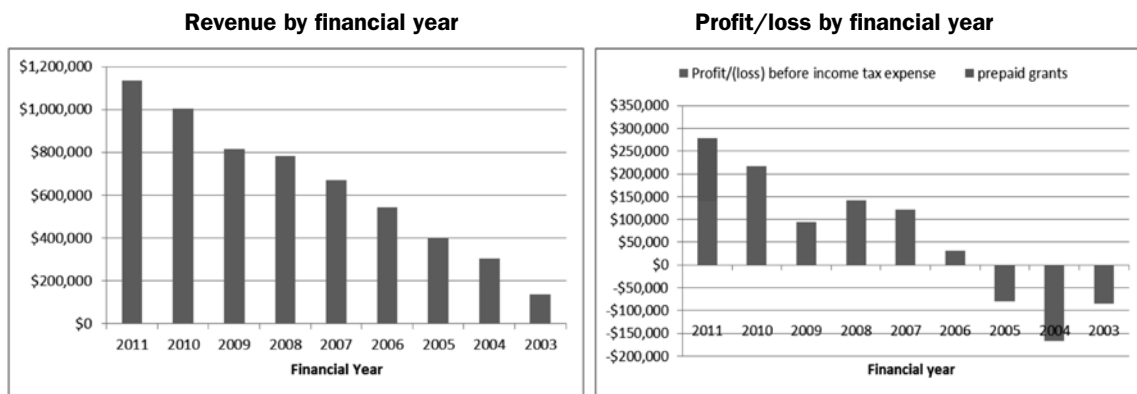
For year ending 30 June 2011

Welcome to the tenth annual report of Clovelly Community Financial Services Limited (CCFS) for the year ending 30 June 2011.

Current position

As we prepare for the tenth anniversary of the opening of Clovelly **Community Bank**[®] Branch next year our local community has much to celebrate!

The bank maintained its strong financial position during 2010/2011. Revenue grew by 13% to \$1.133 million. Expenses of \$991,000 included a payment of \$150,000 to the Community Enterprise Foundation[™] for next year's grants program. After provision for income tax, the net profit attributable to members was \$95,098.



Dividend payment

The Directors have declared an unfranked dividend of 9 cents per share (at a cost of \$56,726) for the year ended 30 June 2011 to be paid on 31 January 2012 in respect of all shares held at midnight on 1 January 2012. In declaring this dividend, the Directors were mindful of the Company's cash reserves, our net profit for 2011 and prospects for continuing profitability during fiscal 2012 whilst also providing for anticipated costs of refurbishing the branch.

Community participation

Returning profits to the local community is a core philosophy of all **Community Bank**[®] branches operating within the Bendigo Bank **Community Bank**[®] business model.

Last year we ran our first community grants program, administered by Community Enterprise Foundation[™]. Applications were received from 19 charitable organisations.

At the grants presentation night on 9 December 2010, \$52,000 was distributed across 11 organisations - Bondi Beach Cottage Inc, The Junction Neighbourhood Centre, Junction House Inc, Clovelly Nippers, Magnolia Healing Centre, Bondi Community Street Project, Waverley Action for Youth Services, Clovelly Surf Lifesaving Club Inc, Charitable Foundation For Books In homes Australia, Clovelly Public School P&C Association Inc, Eastern Suburbs Community Youth Association.

Chairman's report continued

As representatives from each of these community groups explained how their individual grants would be spent to benefit their community constituents, the audience of customers, shareholders and staff marvelled at the passion, empathy and imagination of so many of these innovative programs.

In addition to the grants program a further \$58,000 was distributed to over twenty local community organisations through sponsorships and donations

Board

I would like to welcome Mr Adam Davids to the Board.

Adam is a graduate from the Australian School of Business where he studied a Bachelor of Commerce. Adam joined Career Trackers in 2011 to assist indigenous university students develop professional skills while studying at university. I look forward to his youthful energetic contribution to our **Community Bank**[®] branch.

Our team

To Peter Swan and the staff congratulations on another fine year of professional, personalised and friendly service. I would also like to congratulate the team on their nomination as a finalist for the 2011 NSW Training Awards 'Small Employer of the Year' award.

Finally I would like to thank our shareholders for their continued commitment and our customers for their support of our **Community Bank**[®] branch.



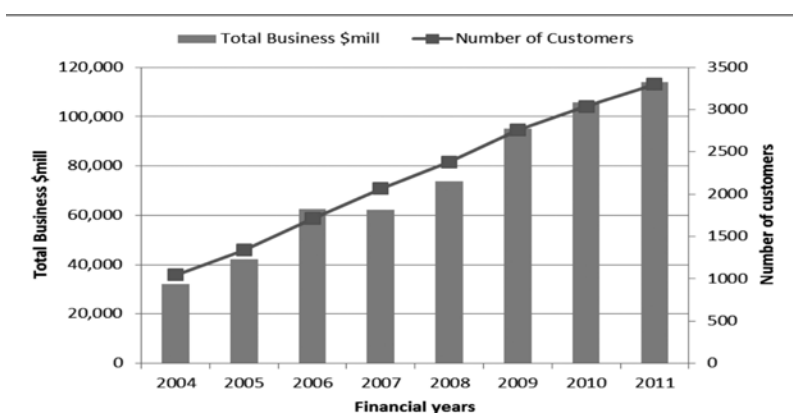
Michael De Navi
Chairman

Manager's report

For year ending 30 June 2011

2010/2011 has been a turning point for Clovelly Community Financial Services. Since opening our doors nine years ago we have established a sound business delivering premium banking services to the local community. Although the challenges of volatile financial markets confront us we are very optimistic entering into our 10th year of business.

Business growth 2004 to 2011



Our branch finished the 2011 financial year with a total portfolio exceeding \$114 million and more than 3,300 customers. As a consequence of portfolio growth in the order \$9 million (8.5%), revenue for the financial year of \$1,133 million was \$61,287 above budget. Contributions to our

local community in the form of sponsorships and grants this year exceeded \$110,000. Net operating profit was \$142,691 and after tax profit \$95,098.

This excellent result reflects the efforts of our staff and Board of Directors.

The solid foundation of an evenly balanced loan and deposit book of loyal clients totalling \$114 million has put us in good stead to forge ahead and continue to deliver strong results.

Our hard working staff, Sally, Belinda, Tash, Nazife, Phoebe and Tiarne have made a very significant contribution to this years result. They continually engage with our clients to go the extra mile and deliver above industry standard personal service. They are the reason clients prefer to bank with us.

Some noteworthy highlights this financial year were:

- TV exposure regarding our community support initiatives on ABC Stateline, SBS Living Black, and Channel Ten's program 'The Renovators'
- Successful completion of Certificate 4 and School Based Traineeships by our staff
- Nominated as finalists in the NSW Training Awards small business category
- Exceeding growth targets and budgets for 2010/2011.

I would like to thank our Board of Directors for their contribution, commitment, tireless work, enthusiasm and vision that has resulted in an outstanding year for Clovelly **Community Bank**® Branch and the local community.

Peter Swan
Manager

Directors' report

For the financial year ended 30 June 2011

Your Directors submit the financial report of the Company for the financial year ended 30 June 2011.

Directors

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

Michael Denavi

Chairperson
Business proprietor

Jonathon Hancock

Director / Secretary
Stockbroker

Naomi Griffin

Director
Lawyer

Tom Pelle

Director
Public Servant

Andrew Winters

Director
Marketing Manager

Libbi Lumb

Director
Registered Nurse / Manager

Janet Kidson

Director
Senior Analyst

Merran Lang

Director
Advertising & Marketing Consultant

Adam Davids (appointed 23 March 2011)

Director
Student Liaison officer

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 Ltd.

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

Review of operations

Operations have performed very well, and above expectations despite difficult conditions experienced during the year. The profit of the Company for the financial year after provision for income tax is \$95,098 (2010: \$151,560). This includes donations and sponsorships to community organisations totalling \$246,592 (2010 \$90,411).

Directors' report continued

| Dividends | Year ended 30 June 2011 | |
|-----------------------------|--------------------------------|---------------|
| | Cents per share | \$'000 |
| Dividends paid in the year: | | |
| - prior year final dividend | 5 | 31,514 |

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

Since the balance date, world financial markets have shown volatility that may have an impact on investment earnings in the 2011/12 financial year. The Company continues to maintain a conservative investment strategy to manage the exposure to market volatility.

There are no other 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.

Remuneration report

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

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' report continued

Directors' meetings

The number of Directors' meetings attended during the year were:

| Director | Board meetings # | Audit committee meetings # |
|---------------------------------------|------------------|----------------------------|
| Michael Denavi | 10 (11) | N/A |
| Jonathon Hancock | 10 (11) | N/A |
| Andrew Winters | 8 (11) | N/A |
| Janet Kidson | 8 (11) | 2 (2) |
| Libbi Lumb | 4 (11) | N/A |
| Tom Pelle | 10 (11) | 2 (2) |
| Merran Lang | 9 (11) | N/A |
| Naomi Griffin | 10 (11) | N/A |
| Adam Davids (appointed 23 March 2011) | 1 (3) | N/A |

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

Company Secretary

Jonathan Hancock was appointed Company Secretary on 14 April 2009. Jonathan is a stockbroker with Ord Minett Limited. He holds a Bachelor of Business (Marketing) and a certificate in Financial Markets from the Securities Institute of Australia. Jonathan has been involved with a number of community groups in the capacity of president and Director.

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 Tom Pelle 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.

Directors' report continued

Auditor Independence Declaration

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



**Richmond
Sinnott &
Delahunty**

CHARTERED ACCOUNTANTS

Level 2, 10 -16 Forest Street
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 2011, 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

5 September 2011

Signed in accordance with a resolution of the Board of Directors at Clovelly, NSW on 5 September 2011.

Michael Denavi, Chairperson

Financial statements

Statement of comprehensive income for the year ended 30 June 2011

| | Note | 2011 \$ | 2010 \$ |
|---|------|---------------|----------------|
| Revenues from continuing operations | 2 | 1,133,571 | 1,003,053 |
| Employee benefits expense | 3 | (411,346) | (375,659) |
| Charitable donations & sponsorship | | (246,592) | (90,411) |
| Depreciation and amortisation expense | 3 | (31,295) | (30,922) |
| Other expenses | | (301,825) | (289,442) |
| Profit before income tax expense | | 142,513 | 216,619 |
| Income tax expense | 4 | 47,415 | 65,059 |
| Profit after income tax expense | | 95,098 | 151,560 |
| Other comprehensive income | | - | - |
| Total comprehensive income | | 95,098 | 151,560 |
| Earnings per share (cents per share) | | | |
| - basic for profit for the year | 21 | 15.09 | 24.05 |
| - diluted for profit for the year | 21 | 15.09 | 24.05 |

The accompanying notes form part of these financial statements.

Financial statements continued

Statement of financial position as at 30 June 2011

| | Note | 2011 \$ | 2010 \$ |
|----------------------------------|------|----------------|----------------|
| Current assets | | | |
| Cash and cash equivalents | 6 | 464,326 | 352,441 |
| Receivables | 7 | 101,792 | 86,339 |
| Total current assets | | 566,118 | 438,780 |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 81,649 | 102,944 |
| Deferred tax asset | 4 | 14,265 | 4,801 |
| Intangible assets | 9 | 10,000 | 20,000 |
| Total non-current assets | | 105,914 | 127,745 |
| Total assets | | 672,032 | 566,525 |
| Current liabilities | | | |
| Payables | 10 | 36,459 | 51,342 |
| Provisions | 11 | 45,281 | 32,144 |
| Current tax payable | 11 | 43,669 | - |
| Total current liabilities | | 125,409 | 83,486 |
| Total liabilities | | 125,409 | 83,486 |
| Net assets | | 546,623 | 483,039 |
| Equity | | | |
| Share capital | 12 | 630,284 | 630,284 |
| Accumulated losses | 13 | (83,661) | (147,245) |
| Total equity | | 546,623 | 483,039 |

The accompanying notes form part of these financial statements.

Financial statements continued

Statement of cash flows for the year ended 30 June 2011

| | Note | 2011 \$ | 2010 \$ |
|--|------------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Cash receipts in the course of operations | | 1,198,540 | 1,071,997 |
| Cash payments in the course of operations | | (1,061,009) | (843,556) |
| Interest received | | 19,078 | 6,933 |
| Income tax paid | | (13,210) | - |
| Net cash flows from operating activities | 14b | 143,399 | 235,374 |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | - | (3,996) |
| Net cash flows used in investing activities | | - | (3,996) |
| Cash flows from financing activities | | | |
| Dividends paid | | (31,514) | (12,606) |
| Net cash flows used in financing activities | | (31,514) | (12,606) |
| Net increase in cash held | | 111,885 | 218,772 |
| Cash and cash equivalents at start of year | | 352,441 | 133,669 |
| Cash and cash equivalents at end of year | 14a | 464,326 | 352,441 |

The accompanying notes form part of these financial statements.

Financial statements continued

Statement of changes in equity for the year ended 30 June 2011

| | Note | 2011 \$ | 2010 \$ |
|---------------------------------|------|-----------------|------------------|
| Share capital | | | |
| 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 | | (147,245) | (286,199) |
| Profit after income tax expense | | 95,098 | 151,560 |
| Dividends paid | 20 | (31,514) | (12,606) |
| Balance at end of year | | (83,661) | (147,245) |

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2011

Note 1. Basis of preparation of the financial report

(a) Basis of preparation

Clovelly Community Financial Services Limited ('the Company') is domiciled in Australia. The financial statements for the year ending 30 June 2011 are presented in Australian dollars. The Company was incorporated in Australia and the principal operations involve providing **Community Bank**[®] services.

The financial statements have been prepared on an accruals basis and are based on historical costs and do not take into account changing money values or, except where stated, current valuations of non-current assets.

The financial statements require judgements, estimates and assumptions to be made that affect the application of accounting policies. Actual results may differ from these estimates.

The financial statements were authorised for issue by the Directors on 5 September 2011.

(b) Statement of compliance

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The financial report of the Company complies with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board. 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. These changes are not expected to have a material impact on the Company's financial statements.

(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 2010 financial statements.

Income tax

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

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

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

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

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

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 Statement of Financial Position. 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 operating cash flows.

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 reporting date. The provision has been calculated on undiscounted amounts based on wage and salary rates expected to be paid and includes related on-costs.

Notes to the financial statements continued

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

Employee benefits (continued)

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 statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts.

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.

Loans and 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.

Share capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Comparative figures

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

Notes to the financial statements continued

| | 2011 \$ | 2010 \$ |
|---|------------------|------------------|
| Note 2. Revenue from continuing operations | | |
| Operating activities | | |
| - services commissions | 1,100,993 | 994,870 |
| - other revenue | 13,500 | 1,250 |
| | 1,114,493 | 996,120 |
| Non-operating activities: | | |
| - interest received | 19,078 | 6,933 |
| | 19,078 | 6,933 |
| | 1,133,571 | 1,003,053 |

Note 3. Expenses

| | | |
|--|----------------|----------------|
| Employee benefits expense | | |
| - wages and salaries | 375,865 | 342,109 |
| - superannuation costs | 34,603 | 32,550 |
| - workers' compensation costs | 878 | 1,000 |
| | 411,346 | 375,659 |
| Depreciation of non-current assets: | | |
| - plant and equipment | 21,295 | 19,868 |
| Amortisation of non-current assets: | | |
| - intangibles | 10,000 | 11,054 |
| | 31,295 | 30,922 |
| Bad debts | - | 2,089 |

Note 4. Income tax expense

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

| | | |
|--|--------|--------|
| Prima facie tax on profit before income tax at 30% | 42,754 | 64,986 |
|--|--------|--------|

Notes to the financial statements continued

| | 2011 \$ | 2010 \$ |
|---|---------------|---------------|
| Note 4. Income tax expense (continued) | | |
| Add tax effect of: | | |
| - Non-deductible expenses | 2,253 | 73 |
| - Under/(Over) provision of tax in prior year | 2,408 | - |
| Current income tax expense | 47,415 | 65,059 |
| Income tax expense | 47,415 | 65,059 |
| Deferred tax assets & liabilities | | |
| Future income tax benefits are recognised at reporting date as realisation of the benefit is regarded as probable. | 14,265 | 4,801 |

Note 5. Auditors' remuneration

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

| | | |
|--|--------------|--------------|
| - Audit or review of the financial report of the Company | 3,900 | 3,900 |
| - Share registry services | 2,621 | 1,612 |
| | 6,521 | 5,512 |

Note 6. Cash and cash equivalents

| | | |
|---------------------------------|----------------|----------------|
| Cash at bank and on hand | 464,326 | 352,441 |
|---------------------------------|----------------|----------------|

Note 7. Receivables

| | | |
|----------------|----------------|---------------|
| Trade debtors | 95,996 | 85,102 |
| Other debtors | 5,676 | 1,117 |
| Other deposits | 120 | 120 |
| | 101,792 | 86,339 |

Note 8. Property, plant and equipment

Office equipment

| | | |
|-------------------------------|--------------|--------------|
| At cost | 18,108 | 18,108 |
| Less accumulated depreciation | (13,353) | (9,570) |
| | 4,755 | 8,538 |

Notes to the financial statements continued

| | 2011 \$ | 2010 \$ |
|---|---------------|----------------|
| Note 8. Property, plant and equipment (continued) | | |
| Leasehold improvements | | |
| At cost | 233,502 | 233,502 |
| Less accumulated depreciation | (156,608) | (139,096) |
| | 76,894 | 94,406 |
| Total written down amount | 81,649 | 102,944 |
| Movements in carrying amounts | | |
| Office equipment | | |
| Carrying amount at beginning of year | 8,538 | 6,897 |
| Additions | - | 3,996 |
| Disposals | - | - |
| Depreciation expense | (3,783) | (2,355) |
| Carrying amount at end of year | 4,755 | 8,538 |
| Leasehold improvements | | |
| Carrying amount at beginning of year | 94,406 | 111,919 |
| Additions | - | - |
| Disposals | - | - |
| Depreciation expense | (17,512) | (17,513) |
| Carrying amount at end of year | 76,894 | 94,406 |

Note 9. Intangible assets

Franchise fee

| | | |
|-------------------------------|---------------|---------------|
| At cost | 50,000 | 50,000 |
| Less accumulated amortisation | (40,000) | (30,000) |
| | 10,000 | 20,000 |
| | 10,000 | 20,000 |

Notes to the financial statements continued

| | 2011 \$ | 2010 \$ |
|------------------------------|---------------|---------------|
| Note 10. Payables | | |
| GST payable | 15,992 | 21,398 |
| Dividends payable | 126 | 113 |
| Other creditors and accruals | 20,341 | 29,831 |
| | 36,459 | 51,342 |

Note 11. Provisions

| | | |
|--------------------------------------|---------------|---------------|
| Employee benefits | 45,281 | 32,144 |
| Current tax payable | 43,669 | - |
| | 88,950 | 32,144 |
| Movement in employee benefits | | |
| Opening balance | 32,144 | 39,407 |
| Additional provisions recognised | 38,030 | 26,316 |
| Amounts utilised during the year | (24,893) | (33,579) |
| Closing balance | 45,281 | 32,144 |

Note 12. Share capital

| | | |
|---|----------------|----------------|
| 630,284 Ordinary shares fully paid of \$1 each | 630,284 | 630,284 |
|---|----------------|----------------|

Note 13. Accumulated losses

| | | |
|---|-----------------|------------------|
| Balance at the beginning of the financial year | (147,245) | (286,199) |
| Dividends paid | (31,514) | (12,606) |
| Profit after income tax | 95,098 | 151,560 |
| Balance at the end of the financial year | (83,661) | (147,245) |

Note 14. Statement of cash flows

(a) Cash and cash equivalents

| | | |
|--------------------|----------------|----------------|
| Cash assets | 464,326 | 352,441 |
|--------------------|----------------|----------------|

Notes to the financial statements continued

| | 2011 \$ | 2010 \$ |
|--|----------------|----------------|
| Note 14. Statement of cash flows (continued) | | |
| (b) Reconciliation of profit after tax to net cashflows from operating activities | | |
| Profit after income tax | 95,098 | 151,560 |
| Non cash items | | |
| - Depreciation | 21,295 | 19,868 |
| - Amortisation | 10,000 | 11,054 |
| Changes in assets and liabilities | | |
| - (Increase) decrease in receivables | (15,453) | (13,171) |
| - Increase (decrease) in payables | (14,883) | 8,267 |
| - Increase (decrease) in income tax payable | 43,669 | - |
| - Increase (decrease) in provisions | 13,137 | (7,263) |
| - (Increase) decrease in deferred income tax asset | (9,464) | 65,059 |
| Net cash flows from operating activities | 143,399 | 235,374 |

Note 15. Director and related party disclosures

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

Michael Denavi
Jonathon Hancock
Andrew Winters
Janet Kidson
Libbi Lumb
Tom Pelle
Merran Lang
Naomi Griffin
Adam Davids (appointed 23 March 2011)

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

Notes to the financial statements continued

Note 15. Director and related party disclosures (continued)

| Directors' shareholdings | 2011 | 2010 |
|---------------------------------------|-------------|-------------|
| Michael Denavi | 1 | 1 |
| Jonathon Hancock | 1,000 | 1,000 |
| Andrew Winters | 1,000 | 1,000 |
| Janet Kidson | 11,000 | 11,000 |
| Libbi Lumb | 500 | 500 |
| Tom Pelle | 2,000 | 2,000 |
| Merran Lang | 1,000 | 1,000 |
| Naomi Griffin | 1,000 | 1,000 |
| Adam Davids (appointed 23 March 2011) | - | - |

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

Note 16. Subsequent events

Since the balance date, world financial markets have shown volatility that may have an impact on investment earnings in the 2011/12 financial year. The Company continues to maintain a conservative investment strategy to manage the exposure to market volatility.

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

Note 17. Contingent liabilities and assets

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 (2010: \$20,378).

Note 18. 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 19. 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

Notes to the financial statements continued

| | 2011 \$ | 2010 \$ |
|---|---------------|---------------|
| Note 20. Dividends paid or provided for on ordinary shares | | |
| (a) Dividends paid during the year | | |
| Previous year final | | |
| Unfranked dividends - 5 cents per share (2010: 2 cents per share) | 31,514 | 12,606 |
| (b) Franking credit balance | | |
| The amount of franking credits available for the subsequent financial year are: | | |
| - Franking account balance as at the end of the financial year | 13,210 | - |
| - Franking credits that will arise from the payment of income tax payable as at the end of the financial year | 43,669 | - |
| | 56,879 | - |

Note 21. 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 | 95,098 | 151,560 |
| Weighted average number of ordinary shares for basic and diluted earnings per share | 630,284 | 630,284 |

Note 22. 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.

Notes to the financial statements continued

Note 22. 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 reporting 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. The Company's maximum exposure to credit risk at reporting date was:

| | Carrying amount | |
|-------------|-----------------|----------------|
| | 2011 | 2010 |
| | \$ | \$ |
| Cash assets | 464,326 | 133,669 |
| Receivables | 101,792 | 73,168 |
| | 566,118 | 206,837 |

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 (2010: 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.

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

Notes to the financial statements continued

Note 22. Financial risk management (continued)

(b) Liquidity risk (continued)

| | Carrying amount \$ | Contractual cash flows \$ | 1 year or less \$ | Over 1 to 5 years \$ | More than 5 years \$ |
|---------------------|-----------------------|------------------------------|----------------------|-------------------------|-------------------------|
| 30 June 2011 | | | | | |
| Payables | 36,459 | (36,459) | (36,459) | - | - |
| | 36,459 | (36,459) | (36,459) | - | - |
| 30 June 2010 | | | | | |
| Payables | 51,342 | (51,342) | (51,342) | - | - |
| | 51,342 | (51,342) | (51,342) | - | - |

(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 | |
|----------------------------------|-----------------|----------------|
| | 2011 \$ | 2010 \$ |
| Fixed rate instruments | | |
| Financial assets | 439,930 | 255,631 |
| Financial liabilities | - | - |
| | 439,930 | 255,631 |
| Variable rate instruments | | |
| Financial assets | 24,196 | 96,610 |
| Financial liabilities | - | - |
| | 24,196 | 96,610 |

Notes to the financial statements continued

Note 22. 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 2010 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 Statement of Financial Position. 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 Statement of Financial Position.

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

(i) the Distribution Limit is the greater of:

- (a) 20% of the profit or funds of the Franchisee otherwise available for distribution to shareholders in that 12 month period; and
- (b) subject to the availability of distributable profits, the Relevant Rate of Return multiplied by the average level of share capital of the Franchisee over that 12 month period; and

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

The Board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the Company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the year ended 30 June 2011 can be seen in the Statement of Comprehensive Income.

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

Directors' declaration

In accordance with a resolution of the Directors of Clovelly Community Financial Services Limited, I state that:

In the opinion of the Directors:

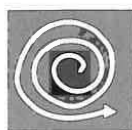
- (a) the financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2011 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia, International Financial Reporting Standards 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 5 September 2011

Independent audit report



**Richmond
Sinnott &
Delahunty**

Chartered Accountants

***INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF CLOVELLY COMMUNITY
FINANCIAL SERVICES LIMITED***

SCOPE

The financial report comprises the statement of financial position, statement of comprehensive income, statement of cash flows, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for Clovelly Community Financial Services Limited, for the year ended 30 June 2011.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are established to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, 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 assess whether in all material respects the financial report presents fairly in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant account 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.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Partners: Kenneth J Richmond • Warren J Sinnott • Philip P Delahunty • Brett A Andrews
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Ph: 03 5443 1177 Fax: 03 5444 4344 Email: rsd@rsdadvisors.com.au
ABN 60 616 244 309

Liability limited by a scheme approved under Professional Standards Legislation

Independent audit report continued

INDEPENDENCE

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

AUDIT OPINION

In our opinion, the financial report of Clovelly Community Financial Services Limited is in accordance with:

- (a) the Corporations Act 2001 including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

Richmond Sinnott & Delahunty

RICHMOND SINNOTT & DELAHUNTY
Chartered Accountants

W. J. Sinnott

W. J. SINNOTT
Partner
Bendigo

Date: 5 September 2011

Detailed income statement

For the year ended 30 June 2011

| | 2011 \$ | 2010 \$ |
|---|------------------|------------------|
| Income | | |
| Income | 1,100,924 | 992,557 |
| Interest | 19,078 | 6,933 |
| Staff costs recharged | | - |
| Other income | 13,569 | 3,563 |
| Total income | 1,133,571 | 1,003,053 |
| Expenses | | |
| Administration & general costs | | |
| Accountancy | 9,909 | 7,815 |
| Audit fees | 3,900 | 3,650 |
| ASIC | 1,096 | 1,056 |
| Agent commission | 56 | 16 |
| Promotions/marketing | 7,179 | 25,894 |
| Bank charges | 506 | 573 |
| Bad debts written off | (1) | 2,089 |
| Board meeting expenses | 2,576 | 2,150 |
| Cash delivery | 12,054 | 10,095 |
| Credit checks / search fees | 870 | 1,153 |
| Cash management | 277 | 430 |
| Payroll service fee | 845 | 870 |
| Sundry | 517 | 618 |
| Donations & community grants | 196,446 | 49,282 |
| Dues & subscriptions | 186 | - |
| Freight | 12,054 | 11,556 |
| Low value assets | - | 1,034 |
| Insurance | 13,263 | 11,868 |
| Legal fees | 3,506 | 73 |
| Postage | 2,118 | 1,797 |
| Printing & stationery | 12,903 | 9,298 |

Detailed income statement continued

| | 2011 \$ | 2010 \$ |
|---|----------------|----------------|
| Expenses (continued) | | |
| Administration & general costs (continued) | | |
| Procedural errors | 136 | 759 |
| R&M office machines | 1,600 | 630 |
| Sponsorships | 50,146 | 41,129 |
| Share registry service | 3,300 | 1,612 |
| Telephone | 7,729 | 7,785 |
| Total administration & general costs | 343,171 | 193,232 |
| IT costs | | |
| IT equipment lease | 8,193 | 9,358 |
| IT running costs | 4,124 | 4,110 |
| IT support costs | 6,238 | 6,522 |
| Total IT costs | 18,555 | 19,990 |
| Depreciation & amortisation | | |
| Depreciation | 3,783 | 2,355 |
| Franchise fee amortisation | 10,000 | 10,000 |
| LHI amortisation | 17,512 | 17,513 |
| Prelim expense amortisation | - | 1,054 |
| Total depreciation & amortisation | 31,295 | 30,922 |
| Occupancy costs | | |
| Cleaning | 8,213 | 8,876 |
| Electricity / gas | 3,571 | 4,154 |
| R&M buildings | 40 | 246 |
| R&M - furniture & fittings | 455 | 1,234 |
| Rent | 104,083 | 100,080 |
| Strata levies | 7,165 | 5,147 |
| Rates & taxes (gen & water) | 3,412 | 3,215 |
| Security monitoring | 2,368 | 1,734 |
| Total occupancy costs | 129,307 | 124,686 |

Detailed income statement continued

| | 2011 \$ | 2010 \$ |
|---|----------------|----------------|
| Expenses (continued) | | |
| ATM | | |
| ATM cash delivery | 6,071 | 8,805 |
| ATM leasing | 3,500 | 3,500 |
| ATM - consumables | - | 44 |
| ATM - maintenance | 1,973 | 2,355 |
| ATM switch fees | 1,591 | 2,286 |
| ATM discrepancies | (84) | (1,658) |
| Total ATM | 13,051 | 15,332 |
| Employment expenses | | |
| Staff uniforms | 3,790 | 577 |
| Staff amenities | 2,084 | 2,513 |
| Staff training | 9,224 | 12,700 |
| Superannuation | 34,603 | 32,550 |
| Wages & salaries | 375,865 | 342,109 |
| Prov for annual leave | 6,408 | (10,396) |
| Prov for LSL | 6,729 | 3,133 |
| Workers comp insurance | 878 | 1,000 |
| Payroll tax | 5 | 164 |
| Contract staff | 6,291 | 8,943 |
| Other employer expenses | 877 | 5,892 |
| Travel & entertainment | 6,557 | 2,843 |
| Staff entertainment non deduct | 2,368 | 244 |
| Total employment expenses | 455,679 | 402,272 |
| Total expenses | 991,058 | 786,434 |
| Profit before income tax expense | 142,513 | 216,619 |
| Income tax expense | | 65,059 |
| Profit after income tax expense | 142,513 | 151,560 |

Clovelly **Community Bank**[®] Branch
222-226 Clovelly Road, Coogee NSW 2034
Phone: (02) 9665 0099 Fax: (02) 9665 0100

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(BMPAR11114) (09/11)

