Clovelly **Community Bank**® Branch

2012

annual report

Clovelly Community
Financial Services Limited

ABN 69 097 378 740

Contents

Chairman's report

For year ending 30 June 2012

Welcome to the eleventh Annual Report of Clovelly Community Financial Services Limited (CCFS) for the year ending 30 June 2012.

Current position

During the past year our **Community Bank®** branch maintained its strong financial position. The tenth year of operation saw a portfolio growth of $13 million finishing at just over $127 million in total business, and an after tax profit of $292,979, a very solid result which reflects the continued maturation of our business.

In June 2012 we purchased the branch's existing business premises in Clovelly Road. The decision to buy a property is in line with feedback from shareholders at the last three Annual General Meetings and is also a reflection of the branch's continuing strong performance and growth. It provides a solid investment for the company, will secure our future at the premises beyond the period of the lease, and the mortgage repayments are only slightly higher than the current rent, which is increasing at 4% per annum. This investment will not jeopardise the branch's ongoing financial viability, nor compromise the distribution of profits to shareholders and the community.

Dividend payment

The Board of Directors have declared a fully franked dividend of 13c per share (at a cost of $81,937) for the year ended 30 June 2012. This will be paid during January 2013 In respect of all shares held at midnight 1 January 2013 In declaring this dividend the Directors were mindful of the company's cash reserves and the provision for our loan repayment commitments, after the purchase of the branch's business premises.

I would like to thank our shareholders for their continuing support in the growth of our **Community Bank®** branch and would also remind you that your ongoing support as customers remains invaluable in ensuring our continued success and determines how much we are able to return to our local community.

Board

The Directors met on a monthly basis during the past financial year and also conducted two strategy meetings which focused on Strategic Goals and Business Development. Once again our Board of Directors have worked diligently and enthusiastically. In particular Mr. Jon Hancock our Company Secretary and Ms. Janet Kidson our Treasurer along with my fellow Directors whose invaluable contributions enabled our continuing success. Sadly Ms. Libby Lumb had to resign her Board position due to ill health. Libby joined the Board of Directors in 2005. I would like to thank Libby for her contribution during her seven years.

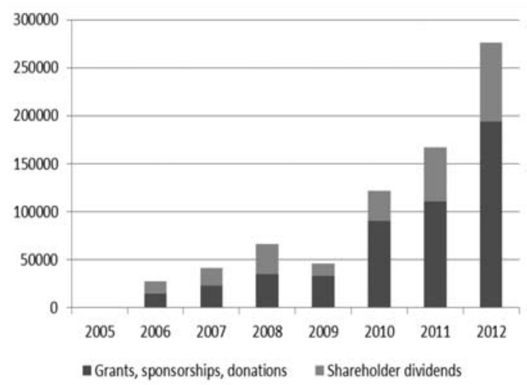
Community participation

The **Community Bank®** model's core philosophy is returning profits back to the community. On the night of April 19. 2012, in conjunction with the Bendigo Community Enterprise FoundationTM, we conducted our second grants presentation night which was held at the Clovelly Bowling Club. $116,580[1] was distributed across ten recipients, this coupled with our sponsorship programs delivered $198,000 back to the community during 2011/2012.

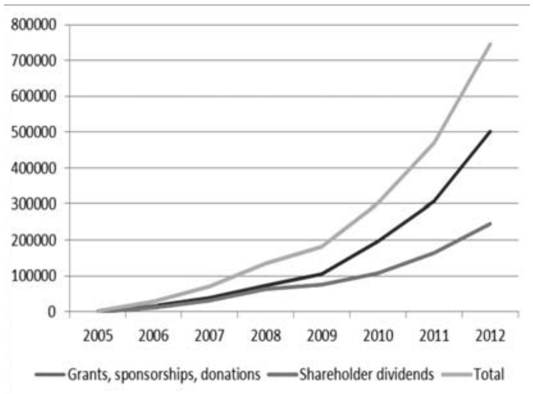
Our contribution of $198,000 to local clubs and community organisations during the past 12 months brings our cumulative contributions to local community groups to over $500,000. Furthermore, our payment of $81,937 in dividends to local shareholders for 2012 (paid January 2013) brings the cumulative dividends paid to $246,000

1 Grants are included in the year the funds were paid to community organisations rather than when funds were transferred to Community Enterprise Foundation™.

Returns to the community



Cumulative community returns



Our team

Our Manager, Peter Swan and his team continue to deliver outstanding customer service in providing local residents, local business and traders friendly professional face-to-face banking services. To Peter and the staff, congratulations on the passionate commitment to our customers. Particularly I congratulate Ms. Sally Lambley and Ms.Nazife Halil on achieving 10 years service at our branch.

Michael Denavi
Chairman

Manager’s report

For year ending 30 June 2012

2012 marks the tenth anniversary of the opening of our **Community Bank®** branch at Clovelly. It has been another successful and profitable year for the branch.

Shareholders, Directors, staff and customers of the **Community Bank®** branch have much to be proud of when reflecting upon the achievements of our branch over the last 10 years. Together we have built an impressive business which has achieved a primary goal of returning banking services to the local community

Our Chairman Michael Denavi, branch Supervisor, Sally Lambley and Customer Service Officer, Nazife Halil have all completed 10 years of loyal, committed outstanding service.

Two of our former School Based Trainees, Phoebe Pearson and Tiarne Dunn are now full time employees and our third School Based Trainee, Andrea Acuna is working one day a week as part of her Business Services certificate.

Our commitment to staff training and involvement in the School Based Trainee program saw us win the prestigious 2011 NSW Training Awards - Small Employer of the Year 2011.

In June 2012 we purchased the branch’s existing business premises. We believe this to be an outstanding achievement which coincides so beautifully with our proud and imminent celebration of ten years of serving our customers and the local community. We believe that current and future customers, the community and shareholders will benefit from the purchase. Thank you to our Treasurer Janet Kidson, our branch Business Banker, Jim Hogg and Bendigo bank Regional Manager Rob Chittick for their efforts, expertise and hard work putting together the credit submission and effecting the sale.

Some of the highlights of the year are as follows:

- Total business portfolio at 30 June 2012 $127 million, representing growth of 11%. Deposits account for 55% of total business and loans 45%,
- Revenue for the year $1.265 million – an increase of 11% over the previous year
- Profit before tax $423,844,
- Community contributions paid to local organisation $198,000 (this includes $116,000 in community grants allocated from funds donated to Community Enterprise Foundation™ in 2011).

Thank you to our hardworking staff and Directors who have all made outstanding contributions that have enabled us to deliver another great result.

P Swan

Peter Swan
Branch Manager

Bendigo and Adelaide Bank report

For year ending 30 June 2012

Thanks to your support as shareholders the **Community Bank®** network has achieved a significant milestone this year, contributing more than $80 million to support the communities these unique companies operate within.

This figure was almost unimaginable when the **Community Bank®** model was first launched in 1998, in partnership with the people from the small Victorian wheat farming towns of Rupanyup and Minyip. For these communities the **Community Bank®** model was seen as a way to restore branch banking services to the towns, after the last of the major banks closed its services. However, in the years since the **Community Bank®** model has become so much more.

In the past financial year a further 20 **Community Bank®** branches have opened, this growth is in-line with our forecast and consistent with what we have seen in recent years. Demand for the model remains strong and there are currently another 32 **Community Bank®** sites in development, with many more conversations happening with communities Australia wide.

At the end of the financial year 2011/12 the **Community Bank®** network had achieved the following:

- Returns to community – $80 million
- **Community Bank®** branches – 295
- **Community Bank®** branch staff – more than 1,400
- **Community Bank®** branch Directors – 1,905
- Volume footings – $21.75 billion
- Customers – 500,000
- Shareholders – 71,197
- Dividends paid to shareholders – $28.8 million

Almost 300 communities have now partnered with Bendigo and Adelaide Bank, so they can not only enhance banking services, but more importantly aggregate the profits their banking business generates and reinvest it in local groups and projects that will ultimately strengthen their community.

In the past 14 years we have witnessed the **Community Bank®** network's returns to communities grow exponentially each year, with $470,000 returned within the first five years, $8.15 million within the first eight and $22.58 million by the end of the first decade of operation.

Today that figure is an astonishing $80 million and with the continued growth and popularity of the **Community Bank®** model, returns should top $100 million by the end of 2013. These dollars add up to new community facilities, improved services, more opportunities for community engagement activities and generally speaking, a more prosperous society.

The communities we partner with also have access to Bendigo and Adelaide Bank's extensive range of other community building solutions including Community Enterprise Foundation™ (philanthropic arm), Community Sector Banking (banking service for not-for-profit organisations), Generation Green™ (environment and sustainability initiative), Community Telco (telecommunications solution), sponsorships, scholarships and Community Enterprises that provide **Community Bank®** companies with further development options.

In Bendigo and Adelaide Bank, your **Community Bank®** company has a committed and strong partner and over the last financial year our company has also seen much success.

Bendigo and Adelaide Bank report (continued)

Last December, our Bank joined the ranks of Australia's A-rated banks following an upgrade announced by Standard & Poor's. Its decision to raise our long-term rating from BBB+ to A– means the Bank (and its **Community Bank®** partners) are now rated 'A' by all three of the world's leading credit rating agencies. This is a huge boost to the Bank and will allow us to access new funding opportunities. It will also enable our group to service supporters who were precluded from banking with us because we were not A rated.

The rating upgrade is a welcome boost for the Bank and its partners at a time when funding is expensive and likely to remain so, margins have been eroded across the industry, credit growth is sluggish at best and subsequently, the profitability of banks remains under pressure.

Not surprisingly, these factors continue to place pressure on our Bank's margin and as **Community Bank®** margin share is still in part based on fixed trails, this is continuing to reflect a skew in margin share between the Bank and its **Community Bank®** partners.

We've been working with the **Community Bank®** network to take action to reduce this imbalance (which is in favour of the **Community Bank®** partners) and see the share of revenue on core banking products closely aligned to the key principal of 50/50 revenue share. Recent market developments are challenging this goal, but the Bank and its partners remain committed to addressing this.

It's Bendigo and Adelaide Bank's vision to be Australia's leading customer-connected bank. We believe our strength comes from our focus on the success of our customers, people, partners and communities. We take a 100-year view of our business; we listen and respect every customer's choice, needs and objectives. We partner for sustainable long-term outcomes and aim to be relevant, connected and valued.

This is what drives each and every one of our people and we invite you as **Community Bank®** shareholders to support us as we work with our partners to deliver on our goals and ensure our sustained and shared success.

As **Community Bank®** shareholders you are part of something special, a unique banking movement which has evolved into a whole new way of thinking about banking and the role it plays in modern society.

We thank you all for the part you play in driving this success.

Russell Jenkins
Executive Customer and Community

Directors' report

For the financial year ended 30 June 2012

Your Directors submit the financial report of the consolidated entity for the financial year ended 30 June 2012. The consolidated entity consists of Clovelly Community Financial Services Limited and the entity it continued for the period ended 30 June 2012.

Directors

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

Michael Denavi
Chairperson
Business proprietor
Board member since 03/07/2001

Andrew Winters
Director
Marketing Manager
Board member since 24/02/2004

Jonathan Hancock
Director / Secretary
Stockbroker
Board member since 24/02/2004

Libbi Lumb (resigned 09/10/2011)
Director
Registered Nurse / Manager
Board member since 01/06/2005

Naomi Griffin
Director
Lawyer
Board member since 10/02/2009

Janet Kidson
Director
Senior Analyst
Board member since 02/06/2003

Tom Pelle
Director
Public Servant
Board member since 23/10/2007

Merran Lang
Director
Advertising & Marketing Consultant
Board member since 23/10/2007

Adam Davids
Director
Student Liaison Officer
Board member since 25/05/2011

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

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

Principal activities

The principal activities of the consolidated entity 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.

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

Operating results

The consolidated profit of the consolidated entity for the financial year after provision for income tax is $290,286 (2011: $95,098). This includes donations and sponsorships to community organisations totalling $58,075 (2011 $246,592).

Financial position

The consolidated net assets of the consolidated entity have increased from $546,623 from 30 June 2011 to $780,183 in 2012. The increase is largely due to continued strong operating performance of the consolidated entity.

	Year ended 30 June 2012	
Dividends	**Cents per share**	**$**
Dividends paid in the year:		
- prior year final dividend	9	56,726

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 consolidated entity that occurred during the financial period under review not otherwise disclosed in this report.

Events after the reporting period

Since balance date, the world financial markets have shown volatility that may have an impact on investment earnings in the 2012/2013 financial year. The consolidated entity 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 consolidated entity, the results of those operations or the state of affairs of the consolidated entity, in future periods.

Future developments

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

Environmental issues

The consolidated entity is not subject to any significant environmental regulation.

Proceedings on behalf of consolidated entity

No person has applied for leave of court to bring proceedings on behalf of the consolidated entity or intervene in any proceedings to which the consolidated entity is a party for the purpose of taking responsibility on behalf of the consolidated entity for all or any part of those proceedings. The consolidated entity was not a party to any such proceedings during the year.

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 consolidated entity, 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 consolidated entity's accounts, or the fixed salary of a full-time employee of the consolidated entity, controlled entity or related body corporate.

Indemnifying Officers or Auditor

The consolidated entity has agreed to indemnify each Officer (Director, Secretary or employee) out of assets of the consolidated entity 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 consolidated entity also has Officers Insurance for the benefit of Officers of the consolidated entity against any liability occurred by the Officer, which includes the arising out of the discharge of the Officer's duties. Officer's liability for legal costs, in or arising out of the conduct of the business of the consolidated entity 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 consolidated entity has not provided any insurance for an Auditor of the consolidated entity.

Directors' meetings

The number of Directors meetings attended during the year were:

Director	Board meetings#	Audit committee meetings#
Michael Denavi	11 (11)	N/A
Jonathan Hancock	11 (11)	N/A
Andrew Winters	8 (11)	N/A
Janet Kidson	11 (11)	2 (2)
Libbi Lumb	0 (3)	N/A
Tom Pelle	7 (11)	2 (2)
Merran Lang	11 (11)	N/A
Naomi Griffin	9 (11)	N/A
Adam Davids	7 (11)	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.

Consolidated entity Secretary

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

Directors' report (continued)

Corporate governance

The consolidated entity 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.

Non audit services

The Directors in accordance with advice from the audit committee, are satisfied that the provision of non audit services during the year is compatible with the general standard of independence for Auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed in Note 5 did not compromise the external Auditor's independence for the following reasons:

- all non audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect integrity and objectivity of the Auditor; and
- the nature of the services provided does not compromise the general principles relating to Auditor independence in accordance with APES 110 "Code of Ethics for Professional Accountants" set by the Accounting Professional and Ethical Standards Board.

Auditor independence declaration

The Auditor's independence declaration for the year ended 30 June 2012 has been received and can be found on page 11 of this financial report.

Signed in accordance with a resolution of the Board of Directors at Clovelly, NSW on 21 September 2012.

Michael Denavi,
Chairperson

Auditor's independence declaration

Richmond
Sinnott &
Delahunty
Chartered Accountants

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

Telephone: (03) 5445 4200
Fax: (03) 5444 4344
Email: rsd@rsdadvisors.com.au

www.rsdadvisors.com.au

The Directors
Clovelly Community Financial Services Limited
226 Clovelly Rd.
Clovelly NSW 2031

To the Directors of Clovelly Community Financial Services Limited

Auditor's Independence Declaration under section 307C of the Corporations Act 2001

I declare that to the best of my knowledge and belief, during the year ended 30 June 2012 there has been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Richmond Sinnott + Delahunty

RICHMOND SINNOTT & DELAHUNTY
Chartered Accountants

W Sinnott

Warren Sinnott
Partner
Bendigo
Dated at Bendigo, 21 September 2012

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

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

Financial statements

Statement of comprehensive income for the year ended 30 June 2012

	Note	Consolidated entity 2012 $	Consolidated entity 2011 $	Parent entity 2012 $	Parent entity 2011 $
Revenue	2	1,264,936	1,133,571	1,264,936	1,133,571
Employee benefits expense	3	(437,744)	(411,346)	(437,744)	(411,346)
Depreciation and amortisation expense	3	(30,846)	(31,295)	(30,846)	(31,295)
Other expenses		(314,427)	(301,825)	(319,730)	(301,825)
Operating profit before charitable donations & sponsorships		**481,919**	**389,105**	**476,616**	**389,105**
Charitable donations and sponsorship		(58,075)	(246,592)	(58,075)	(246,592)
Profit before income tax expense		**423,844**	**142,513**	**418,541**	**142,513**
Income tax expense	4	133,558	47,415	131,967	47,415
Net profit for the year		**290,286**	**95,098**	**286,574**	**95,098**
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		**290,286**	**95,098**	**286,574**	**95,098**
Earnings per share (cents per share)					
- Basic for profit for the year	23	46.06	15.09	45.47	15.09
- Diluted for profit for the year	23	46.06	15.09	45.47	15.09

The accompanying notes form part of these financial statements.

Statement of financial position as at 30 June 2012

	Note	Consolidated entity 2012 $	Consolidated entity 2011 $	Parent entity 2012 $	Parent entity 2011 $
Assets					
Current assets					
Cash and cash equivalents	6	168,689	464,326	124,437	464,326
Receivables	7	103,582	101,792	103,581	101,792
Total current assets		**272,271**	**566,118**	**228,018**	**566,118**
Non-current assets					
Property, plant and equipment	8	1,655,296	81,649	64,253	81,649
Deferred tax assets	4	16,527	14,265	16,527	14,265
Intangible assets	9	57,768	10,000	57,768	10,000
Other financial assets	10	-	-	578,481	-
Total non-current assets		**1,729,591**	**105,914**	**717,029**	**105,914**
Total assets		**2,001,862**	**672,032**	**945,047**	**672,032**
Liabilities					
Current liabilities					
Payables	11	40,404	36,459	38,891	36,459
Provisions	12	60,475	45,281	60,475	45,281
Current tax payable	12	70,800	43,669	69,210	43,669
Borrowings	13	133,848	-	-	-
Total current liabilities		**305,527**	**125,409**	**168,576**	**125,409**
Non current liabilities					
Borrowings	13	916,152	-	-	-
Total non current liabilities		**916,152**	**-**	**-**	**-**
Total liabilities		**1,221,679**	**125,409**	**168,576**	**125,409**
Net assets		**780,183**	**546,623**	**776,471**	**546,623**
Equity					
Issued capital	14	630,284	630,284	630,284	630,284
Retained earnings	15	149,900	(83,661)	146,187	(83,661)
Total equity		**780,184**	**546,623**	**776,471**	**546,623**

The accompanying notes form part of these financial statements.

Statement of cash flows for the year ended 30 June 2012

	Note	Consolidated entity 2012 $	Consolidated entity 2011 $	Parent entity 2012 $	Parent entity 2011 $
Cash flows from operating activities					
Cash receipts in the course of operations		1,315,118	1,198,540	1,226,400	1,198,540
Cash payments in the course of operations		(876,230)	(1,061,009)	(794,355)	(1,061,009)
Interest paid		33,150	19,078	33,150	19,078
Interest received		-	-	(16)	-
Income tax paid		(108,688)	(13,210)	(108,688)	(13,210)
Net cash flows from operating activities	**16b**	**363,350**	**143,399**	**356,491**	**143,399**
Cash flows from investing activities					
Payments for property, plant and equipment		(1,594,493)	-	(3,449)	-
Payments for franchise		(57,768)	-	(57,768)	-
Payments for share inwholly owned subsidiaries		-	-	(1)	-
Loans to related companies		-	-	(578,481)	-
Net cash flows (used in) investing activities		**(1,652,261)**	**-**	**(639,699)**	**-**
Cash flows from financing activities					
Proceeds from borrowings		1,050,000	-	-	-
Dividends paid		(56,726)	(31,514)	(56,681)	(31,514)
Net cash flows from/(used in) financing activities		**993,274**	**(31,514)**	**(56,681)**	**(31,514)**
Net increase / (decrease) in cash held		**(295,637)**	**111,885**	**(339,889)**	**111,885**
Cash and cash equivalents at start of year		464,326	352,441	464,326	352,441
Cash and cash equivalents at end of year	**16a**	**168,689**	**464,326**	**124,437**	**464,326**

The accompanying notes form part of these financial statements.

Statement of changes in equity for the year ended 30 June 2012

	Note	Consolidated entity 2012 $	Consolidated entity 2011 $	Parent entity 2012 $	Parent entity 2011 $
Issued capital					
Balance at start of year		630,284	630,284	630,284	630,284
Issue of share capital		-	-	-	-
Return of capital		-	-	-	-
Share issue costs		-	-	-	-
Balance at end of year		**630,284**	**630,284**	**630,284**	**630,284**
Retained earnings/(accumulated losses)					
Balance at start of year		(83,661)	(147,245)	(83,661)	(147,245)
Net profit for the year		290,286	95,098	286,574	95,098
Dividends paid	22	(56,726)	(31,514)	(56,726)	(31,514)
Balance at end of year		**149,900**	**(83,661)**	**146,187**	**(83,661)**

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2012

Note 1. Summary of significant accounting policies

(a) Basis of preparation

Clovelly Community Financial Services Limited ('the company') is domiciled in Australia. The financial statements for the year ending 30 June 2012 are presented in Australian dollars. The company was incorporated in Australia and the principal operations involve providing **Community Bank®** services.

The financial statements are general purpose financial statements, that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authorative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The company is a for profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, were applicable, by the measurement of fair value of selected non current assets, financial assets and financial liabilities.

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 21 September 2012.

(b) 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.

(c) Property, plant and equipment

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

Land and buildings are measured at fair value less accumulated depreciation.

Note 1. Summary of significant accounting policies (continued)

(c) Property, plant and equipment (continued)

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

Class of asset	Depreciation rate
Building improvements	2.5%
Furniture & fittings	30%

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.

Revaluations

Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

Fair value is determined by reference to market based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

(d) Impairment 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.

(e) 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.

Note 1. Summary of significant accounting policies (continued)

(f) 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.

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

(g) Intangibles

Establishment costs have been initially recorded at cost and amortised on a straight line basis at a rate of 20% per annum. The current amortisation changes for intangible assets are included under depreciation and amortisation expense per the Statement of Comprehensive Income.

(h) 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.

(i) Revenue

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

(j) 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.

(k) New accounting standards for application in future periods

Australian Accounting Standards that have been recently issued or amended but not yet effective have not been adopted in the preparation of these financial statements. These changes have been assessed by Directors and determined they will not have a material impact on the company's financial statements.

(l) Loans and borrowings

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

(m) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions 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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

(n) 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.

(o) Comparative figures

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

(p) Critical accounting estimates and judgements

The Directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company. Estimates and judgements are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The estimates and judgements that have a significant risk of causing material adjustments to the carrying values of assets and liabilities are as follows:

Estimation of useful lives of assets

The company determines the estimated useful lives and related depreciation and amortisation changes for its property, plant and equipment and intangible assets. The depreciation and amortisation charge will increase where useful lives are less than previously estimated lives.

Income tax

The company is subject to income tax. Significant judgement is required in determining the provision for income tax.

Impairment

The company assesses impairment at the end of each reporting period by calculating conditions and events specific to the company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value in use calculations which incorporate various key assumptions.

(q) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sell the asset (ie trade date accounting is adopted). Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to the profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method or cost.

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method or cost. Where available quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Note 1. Summary of significant accounting policies (continued)

(q) Financial instruments (continued)

Classification and subsequent measurement (continued)

Amortised costs is calculated as the amount which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

(i) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

(ii) Financial liabilities

Non derivative financial liabilities are subsequently measured at amortised cost.

Impairment

At the end of each reporting period, the company assesses whether there is objective evidence that a financial asset has been impaired. A financial asset is deemed impaired if and only if, there is objective evidence of impairment as a result of one or more events (a loss event) having occurred, which has an impact on the estimated future cash flows of the financial asset. In the case of financial assets carried at amortised cost, loss events may include indications that the debtor are experiencing significant financial difficulty or changes in economic conditions.

(r) Principles of consolidation

The consolidated financial statements incorporate the assets, liabilities, and results of entities controlled by Clovelly Community Financial Services Limited at the end of the reporting period. A controlled entity is an entity over which Clovelly Community Financial Services Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. Details of the controlled entity can be found at note10 to the financial statements.

	Consolidated entity		Parent entity	
	2012 $	2011 $	2012 $	2011 $

Note 2. Revenue

Revenue from continuing activities				
- services commissions	1,231,786	1,114,493	1,231,786	1,114,493
Other revenue				
- interest received	33,150	19,078	33,150	19,078
	1,264,936	**1,133,571**	**1,264,936**	**1,133,571**

	Consolidated entity		Parent entity	
	2012	2011	2012	2011
	$	$	$	$

Note 3. Expenses

Employee benefits expense				
- wages and salaries	401,071	375,865	401,071	375,865
- superannuation costs	35,732	34,603	35,732	34,603
- workers' compensation costs	941	878	941	878
- other costs	-	-	-	-
	437,744	**411,346**	**437,744**	**411,346**
Depreciation of non-current assets:				
- plant and equipment	20,846	21,295	20,846	21,295
Amortisation of non-current assets:				
- Intangible assets	10,000	10,000	10,000	10,000
	30,846	**31,295**	**30,846**	**31,295**
Bad debts	2,782	-	2,782	-

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%	127,153	42,754	125,562	42,754
Add tax effect of:				
- Non-deductible/other deductible expenses	1,114	2,253	1,114	2,253
- Under provision of tax in prior years	5,291	2,408	5,291	2,408
Income tax expense	**133,558**	**47,415**	**131,967**	**47,415**
Deferred tax assets				
Future income tax benefits arising are recognised at reporting date as realisation of the benefit is regarded as probable.	**16,527**	**14,265**	**16,527**	**14,265**

	Consolidated entity		Parent entity	
	2012	2011	2012	2011
	$	$	$	$

Note 5. Auditors' remuneration

Remuneration of the Auditor for:

- Audit or review of the financial report	4,900	3,900	3,900	3,900
- Share registry services	2,683	2,621	2,683	2,621
	7,583	**6,521**	**6,583**	**6,521**

Note 6. Cash and cash equivalents

Cash at bank and on hand	**168,689**	**464,326**	**124,437**	**464,326**

Note 7. Receivables

Trade debtors	96,945	95,996	96,945	95,996
Other debtors	6,517	5,676	6,516	5,676
Other deposits	120	120	120	120
	103,582	**101,792**	**103,581**	**101,792**

Note 8. Property, plant and equipment

Land at cost	**378,000**	**-**	**-**	**-**
Buildigs				
At cost	1,213,043	-	-	-
Less accumulated depreciation	-	-	-	-
	1,213,043	**-**	**-**	**-**
Office equipment				
At cost	21,557	18,108	21,557	18,108
Less accumulated depreciation	(16,685)	(13,353)	(16,685)	(13,353)
	4,872	**4,755**	**4,872**	**4,755**
Leasehold improvements				
At Cost	233,502	233,502	233,502	233,502
Less accumulated depreciation	(174,121)	(156,608)	(174,121)	(156,608)
	59,381	**76,894**	**59,381**	**76,894**
Total written down amount	**1,655,296**	**81,649**	**64,253**	**81,649**

	Consolidated entity		Parent entity	
	2012	2011	2012	2011
	$	$	$	$

Note 8. Property, plant and equipment (continued)

Movements in carrying amounts

	Consolidated entity 2012 $	Consolidated entity 2011 $	Parent entity 2012 $	Parent entity 2011 $
Land				
Carrying amount at beginning of year	-	-	-	-
Additions	591,403	-	-	-
Disposals	-	-	-	-
Carrying amount at end of year	**591,403**	**-**	**-**	**-**
Buildings				
Carrying amount at beginning of year	-	-	-	-
Additions	1,000,000	-	-	-
Disposals	-	-	-	-
Depreciation expense	-	-	-	-
Carrying amount at end of year	**1,000,000**	**-**	**-**	**-**
Office equipment				
Carrying amount at beginning of year	4,755	8,538	4,755	8,538
Additions	3,449	-	3,449	-
Disposals	-	-	-	-
Depreciation expense	(3,332)	(3,783)	(3,332)	(3,783)
Carrying amount at end of year	**4,872**	**4,755**	**4,872**	**4,755**
Leasehold improvements				
Carrying amount at beginning of year	76,894	94,406	76,894	94,406
Additions	-	-	-	-
Disposals	-	-	-	-
Depreciation expense	(17,513)	(17,512)	(17,513)	(17,512)
Carrying amount at end of year	**59,381**	**76,894**	**59,381**	**76,894**

Note 9. Intangible assets

	Consolidated entity 2012 $	Consolidated entity 2011 $	Parent entity 2012 $	Parent entity 2011 $
Franchise fee				
At cost	57,768	50,000	57,768	50,000
Less accumulated amortisation	-	(40,000)	-	(40,000)
	57,768	**10,000**	**57,768**	**10,000**

	Consolidated entity		Parent entity	
	2012 $	2011 $	2012 $	2011 $

Note 10. Other financial assets

Shares in subsidiary	-	-	578,451	-
	-	**-**	**578,451**	**-**

The consolidated financial statements incorporates the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in note 1 (r).

Name of entitiy	Country of Incorporation	Equity holding 2012 %	Equity holding 2011 %	Parent entity 2012 $	Parent entity 2011 $
Clovelly Community Property Holdings Pty Ltd	Australia	**100**	**-**	**578,481**	**-**

	Consolidated entity		Parent entity	
	2012 $	2011 $	2012 $	2011 $

Note 11. Payables

GST payable	23,766	15,992	24,253	15,992
Dividends payable	171	126	171	126
Other creditors and accruals	16,467	20,341	14,467	20,341
	40,404	**36,459**	**38,891**	**36,459**

Note 12. Provisions

Employee benefits	60,475	45,281	60,475	45,281
Current tax payable	70,800	43,669	69,210	43,669
	131,275	**88,950**	**129,685**	**88,950**
Movement in employee benefits				
Opening balance	45,281	32,144	45,281	32,144
Additional provisions recognised	45,761	38,030	45,761	38,030
Amounts utilised during the year	(30,567)	(24,893)	(30,567)	(24,893)
Closing balance	**60,475**	**45,281**	**60,475**	**45,281**

	Consolidated entity		Parent entity	
	2012	**2011**	**2012**	**2011**
	$	**$**	**$**	**$**

Note 13. Borrowings

Current liability

Bendigo and Adelaide Bank commercial loan	133,848	-	-	-
	133,848	**-**	**-**	**-**

Non current liability

Bendigo and Adelaide Bank commercial loan	916,152	-	-	-
	916,152	**-**	**-**	**-**

The commercial loan is secured by a first registered mortgage over the freehold property owned by the Group.

The loan is for a term of 10 years and the current interest rate is 6.48 %.

Note 14. Share capital

630,284 Ordinary Shares fully paid.	**630,284**	**630,284**	**630,284**	**630,284**

Note 15. Accumulated profits/(losses)

Balance at the beginning of the financial year	(83,661)	(147,245)	(83,661)	(147,245)
Dividends paid	(56,726)	(31,514)	(56,726)	(31,514)
Profit after income tax	290,286	95,098	286,574	95,098
Balance at the end of the financial year	**149,900**	**(83,661)**	**146,187**	**(83,661)**

Note 16. Statement of cash flows

(a) Cash and cash equivalents

Cash assets	**168,690**	**464,326**	**124,437**	**464,326**

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

Profit after income tax	290,286	95,098	286,574	464,326

	Consolidated entity		Parent entity	
	2012	2011	2012	2011
	$	$	$	$

Note 16. Statement of cash flows (continued)

Non cash items				
- Depreciation	20,846	21,295	20,846	21,295
- Amortisation	10,000	10,000	10,000	10,000
Changes in assets and liabilities				
- (Increase) decrease in receivables	(1,790)	(15,453)	(1,790)	(15,453)
- Increase (decrease) in payables	3,945	(14,883)	2,388	(14,883)
- Increase (decrease) in income tax payable	24,869	43,669	25,541	43,669
- Increase (decrease) in provisions	15,194	13,137	15,194	13,137
- (Increase) decrease in deferred income tax asset	-	(9,464)	(2,262)	(9,464)
Net cashflows from/(used in) operating activities	**363,350**	**143,399**	**356,491**	**143,399**

Note 17. Director and related party disclosures

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

Michael Denavi
Andrew Winters
Libbi Lumz
Merran Lang
Adam Davids
Jonathan Hancock
Janet Kidson
Tom Pelle
Naomi Griffin

No 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	Consolidated entity 2012	Consolidated entity 2011	Parent entity 2012	Parent entity 2011
Michael Denavi	1	1	1	1
Jonathan Hancock	1,000	1,000	1,000	1,000
Andrew Winters	1,000	1,000	1,000	1,000
Janet Kidson	11,000	11,000	11,000	11,000
Libbi Lumb	500	500	500	500
Tom Pelle	-	-	-	-
Merran Lang	1,000	1,000	1,000	1,000
Naomi Griffin	1,000	1,000	1,000	1,000
Adam Davids	-	-	-	-

There was no movement in Directors' shareholdings during the year. Each share held has a paid up value of $1 and is fully paid.

Note 18. Events after the reporting period

Since the balance date, world financial markets have shown volatility that may have an impact on investment earnings in the 2012/13 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 19. Contingent liabilities and assets

In June 2012 Clovelly Community Financial Services Limited established a subsidiary company, Clovelly Community Property Holdings Pty Ltd. This entity purchased the existing premises from which the premises currently operates. Consequently the guarantee to secure the lease of the bank which was previously in place is no longer required (2011: $20,378)

Note 20. Operating segments

The company operates in the financial services sector where it provides banking services to its clients. The company operates in one geographic area being Clovelly, NSW. The company has a franchise agreement in place with Bendigo and Adelaide Bank who account for 100% of the revenue (2011: 100%).

Note 21. 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

	Consolidated entity 2012 $	Consolidated entity 2011 $	Parent entity 2012 $	Parent entity 2011 $
Note 22. Dividends paid or provided for on ordinary shares				
(a) Dividends paid during the year				
Previous year final	**56,726**	**31,514**	**56,726**	**31,514**
Unfranked dividends - 9 cents per share (2011: 5 cents per share)				
(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	152,252	13,210	152,252	13,210
- Franking credits that will arise from the payment of income tax payable as at the end of the financial year	70,800	43,669	69,210	43,669
	223,052	**56,879**	**221,462**	**56,879**

	Consolidated entity		Parent entity	
	2012	2011	2012	2011
	$	$	$	$

Note 23. 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:

	Consolidated entity 2012 $	Consolidated entity 2011 $	Parent entity 2012 $	Parent entity 2011 $
Profit after income tax expense	**290,286**	**95,098**	**286,574**	**95,098**
Weighted average number of ordinary shares for basic and diluted earnings per share	**630,284**	**630,284**	**630,284**	**630,284**

Note 24. Financial risk management

The company's financial instruments consist mainly of deposits with banks, account receivables and payables, bank overdraft and loans. The totals for each category of financial instruments measured in accordance with AASB 139 are as follows:

	Note	Consolidated entity		Parent entity	
		2012	2011	2012	2011
		$	$	$	$
Financial assets					
Cash & cash equivalents	6	168,689	464,326	124,437	464,326
Receivables	7	103,582	101,792	103,581	101,792
Total financial assets		**272,271**	**566,118**	**228,018**	**566,118**
Financial liabilities					
Payables	10	40,404	36,459	38,891	36,459
Loans & borrowings	12	1,050,000	-	-	-
Total financial liabilities		**1,090,404**	**36,459**	**38,891**	**36,459**

Note 24. Financial risk management (continued)

Financial risk management policies

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

Specific financial risk exposure and management

The company has exposure to credit risk, liquidity risk and market risk from their use of financial instruments. There have been no substantive changes in the types of risks the company is exposed to, how the risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous period.

(a) Credit risk

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

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 Consolidated entity		**Carrying Amount Parent entity**	
	2012 $	**2011 $**	**2012 $**	**2011 $**
Cash and cash equivalents	168,689	464,326	124,437	464,326
Receivables	103,582	101,792	103,581	101,792
	272,271	**566,118**	**228,018**	**566,118**

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.

None of the assets of the company are past due (2011: 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.

(b) Liquidity risk

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

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

Note 24. Financial risk management (continued)

(b) Liquidity risk (continued)

Financial liability and financial asset maturity analysis

	Total $	Within 1 year $	1 to 5 years $	Over 5 years $
30 June 2012 Consolidated group				
Financial liabilities due for payment				
Payables	(40,404)	(40,404)	–	–
Loans and borrowings	(1,050,000)	-	–	(1,050,000)
Total expected outflows	**(1,090,404)**	**(40,404)**	**–**	**(1,050,000)**
Financial assets - cashflow realisable				
Cash & cash equivalents	168,689	168,689	–	–
Receivables	103,582	103,582	–	–
Total anticipated inflows	**272,271**	**272,271**	**–**	**–**
Net (outflow)/inflow on financial instruments	**(818,133)**	**231,867**	**–**	**(1,050,000)**

	Total $	Within 1 year $	1 to 5 years $	Over 5 years $
30 June 2011 Consolidated group				
Financial liabilities due for payment				
Payables	(36,459)	(36,459)	–	–
Loans and borrowings	-	-	–	–
Total expected outflows	**(36,459)**	**(36,459)**	**–**	**–**
Financial assets - cashflow realisable				
Cash & cash equivalents	464,326	464,326	–	–
Receivables	101,792	101,792	–	–
Total anticipated inflows	**566,118**	**566,118**	**–**	**–**
Net (outflow)/inflow on financial instruments	**529,659**	**529,659**	**–**	**–**

Note 24. Financial risk management (continued)

(b) Liquidity risk (continued)

Financial liability and financial asset maturity analysis (continued)

	Total $	Within 1 year $	1 to 5 years $	Over 5 years $
30 June 2012 Parent entity				
Financial liabilities due for payment				
Payables	(38,891)	(38,891)	–	–
Loans and borrowings	-	(6,210)	6,210	–
Total expected outflows	**(38,891)**	**(45,101)**	**6,210**	**–**
Financial assets - cashflow realisable				
Cash & cash equivalents	124,437	124,437	–	–
Receivables	103,581	103,581	–	–
Total anticipated inflows	**228,018**	**228,018**	**–**	**–**
Net (outflow)/inflow on financial instruments	**189,127**	**182,917**	**6,210**	**–**

	Total $	Within 1 year $	1 to 5 years $	Over 5 years $
30 June 2011 Parent entity				
Financial liabilities due for payment				
Payables	(36,459)	(36,459)	–	–
Loans and borrowings	-	(6,994)	6,994	–
Total expected outflows	**(36,459)**	**(43,453)**	**6,994**	**–**
Financial assets - cashflow realisable				
Cash & cash equivalents	464,326	464,326	–	–
Receivables	101,792	101,792	–	–
Total anticipated inflows	**566,118**	**566,118**	**–**	**–**
Net (outflow)/inflow on financial instruments	**529,659**	**522,665**	**6,994**	**–**

Financial assets pledged as collateral

There are no material amounts of collateral held as security as at 30 June 2012 and 30 June 2011.

Note 24. Financial risk management (continued)

(c) Market risk

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

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 Consolidated entity		Carrying Amount Parent entity	
	2012 $	2011 $	2012 $	2011 $
Fixed rate instruments				
Financial assets	64,400	439,930	64,400	439,930
Financial liabilities	-	-	-	-
	64,400	**439,930**	**64,400**	**439,930**
Floating rate instruments				
Financial assets	104,289	24,396	60,037	24,396
Financial liabilities	(1,050,000)	-	-	-
	(945,711)	**24,396**	**60,037**	**24,396**

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 2011 there was also no impact. As at both dates this assumes all other variables remain constant.

The company has no exposure to fluctuations in foreign currency.

(d) Price risk

The company is not exposed to any material price risk.

Fair values

The fair values of financial assets and liabilities approximate the carrying values as disclosed in the Statement of Financial Position. Fair value is the amount at which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction. The company does not have any unrecognised financial instruments at year end.

Note 24. Financial risk management (continued)

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 2012 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, the Directors of the company declare that:

1 the financial statements and notes of the company as set out on pages 12 to 33 are in accordance with the Corporations Act 2001 and:

   (i) comply with Australian Accounting Standards, which as stated in accounting policy Note 1(a) to the financial statements constitutes compliance with International Financial Reporting Standards (IFRS); and

   (ii) give a true and fair view of the company's financial position as at 30 June 2012 and of the performance for the year ended on that date;

2 in the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Michael Denavi
Chairperson

Signed at Clovelly on 21 September 2012

Richmond Sinnott & Delahunty
Chartered Accountants

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CLOVELLYCOMMUNITY
FINANCIAL SERVICES LIMITED AND CONTROLLED ENTITY

Report on the Financial Report

We have audited the accompanying financial report of Clovelly Community Financial Services Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards (IFRS).

Auditor's Responsibility

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

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

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion

In our opinion:

(a) the financial report of Clovelly Community Financial Services is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the financial report also complies with the International Financial Reporting Standards as disclosed in Note 1(a).

Richmond Sinnott & Delahunty

RICHMOND SINNOTT & DELAHUNTY
Chartered Accountants

W. J. SINNOTT
Partner

Dated at Bendigo, 21 September 2012

Clovelly **Community Bank**® Branch
222-226 Clovelly Road, Clovelly NSW 2031
Phone: (02) 9665 0100

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Bendigo Bank

(BMPAR12107) (09/12)