

Valley Community
Financial Services Limited

ABN 86 092 399 730

annual report 2011



Hurstbridge & Districts **Community Bank**[®] Branch

Diamond Creek **Community Bank**[®] Branch

Eltham & District **Community Bank**[®] Branch

Doreen & Mernda **Community Bank**[®] Branch

and Kinglake branch

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Chairman's report

For year ending 30 June 2011

To my fellow shareholders and **Community Bank**[®] branch supporters I have great pleasure in being able to report another successful year for the Valley Community Financial Services Ltd (VCFS) group. Your Board of Directors and staff has worked hard to bring about the vision we all have for the **Community Bank**[®] concept in this region.

Group Senior Manager

In August 2010 we appointed Michael Maloney to the new position of Group Senior Manager. Michael's role is to have overall management of the groups' banking business. Michael is a local person who has lived in Eltham for many years. He came to us from Strathmore **Community Bank**[®] Branch where he had been manager for the last ten years. Michael was the foundation manager of that branch. Michael achieved huge success at Strathmore and so brings a wealth of experience in the **Community Bank**[®] concept and a track record of success to our business. Michael is highly regarded by his peers and Bendigo and Adelaide Bank Ltd management.

Two new branches open

On 1 July 2010 a prospectus was issued by VCFS to raise capital for start up costs and some working capital to create two new local branches, Eltham & District and Doreen & Mernda **Community Bank**[®] branches. As reported in 2010 after requests from those two communities VCFS agreed to partner with them to help establish the new branches.

As a partner we both benefit. The new **Community Bank**[®] branches enjoy the benefit of an experienced and profitable Company and we did not need to raise as much capital as is necessary when trying to start as a stand alone branch.

Given the significant business we already have in those areas we are able to direct funds to make grants and enter into sponsorship agreements. A new branch would usually have to wait several years to be in a position to have the funds available. We use those grants and sponsorships as a promotional opportunity, engaging community groups and promoting our business to their members. These activities will ensure the new branches grow to profit much sooner than they otherwise would have.

VCFS retain the business within the group; almost \$9 million has been redomiciled to the new branches from Diamond Creek alone. We can manage grants and sponsorships across the region ensuring the best use of community funds available. We are able to build a strong staff base and offer career paths for them. The wider range of staff enables us to fill gaps when and where required.

The Eltham branch opened in October 2010 and has enjoyed rapid growth to \$30 million in banking footings by June 30 2011. The manager Liam Jones and his team are working hard to engage the Eltham community so they embrace the new **Community Bank**[®] branch.

Doreen & Mernda branch opened in February 2011. The branch was a little slower to take off but business has started to move more quickly in more recent months. The business was at \$9 million by 30 June 2011. Our manager Jennifer Pearson has introduced a number of programs to help engage that community and offer some banking guidance to new home buyers.

Each branch needs approximately \$50 million in footings to trade at break even.

Chairman's report continued

Hurstbridge and Diamond Creek

Hurstbridge & Districts **Community Bank**[®] Branch continues to be our flagship branch. The branch grew a further 8.5% for the 2011 financial year. We have an exceptional Branch Manager in Dion Shirley and he has built a great team at Hurstbridge. Dion also manages the Kinglake branch which is a sub branch to Hurstbridge. Kinglake is coming along slowly, as expected and should show a small profit in 2012 financial year.

Our Diamond Creek **Community Bank**[®] Branch has suffered a little from the new branches but continues to perform quite well and is contributing profits back to the group. Branch Manager Tina Elmer joined 18 months ago and has quickly embraced Bendigo and Adelaide Bank Ltd's **Community Bank**[®] model. Tina has built a team of friendly capable staff who focus on old fashioned customer service.

Hurstbridge and Diamond Creek contributed operating profits before administration costs and grants of more than \$1.25 million.

Community Bank Stadium

This is one of those very special projects that will make an enormous contribution to the entire region.

When the stadium opens it will service 6,000 people a week. It will provide sporting facilities for gymnasts, the huge participation sports of Netball and Basketball, and it will be available for two schools; Diamond Creek East Primary School and Diamond Valley College. It will also provide a venue and first class facilities for amateur theatre and singing groups.

We have partnered with Federal and State Government and the Nillumbik Shire Council to help fund the project. We have built a new and lasting relationship with the user groups providing us a path to grow our business.

The building project was launched with a huge local fanfare and turning of the first sod in November 2010. The Community Bank Stadium is expected to be ready for official opening in February 2012. We have secured naming rights for ten years promoting our business and providing a massive community benefit.

Sub committees

We have a number of sub committees in place. This year every committee has worked hard reviewing and renewing our approach. The effort put in ensures we constantly improve the management of your Company.

The sub committees include:

- Community Support Program (Grants and Sponsorships)
- Marketing and Advertising
- Policies and Procedures
- Events
- Finance
- Strategy
- Audit
- HR
- OH&S

Significant work has been done in number of areas. A review and updating of policies and procedures is well underway and should be completed this financial year. This will be an ongoing process.

Chairman's report continued

The Events committee has been busy with new branch openings, ten year birthday celebrations for Hurstbridge, plus the regular local festivals and shows. They are also starting to work on community forums to help us tell our business story and leverage off the grants and sponsorships we offer.

The Finance committee has implemented massive reporting and accounting changes to ensure Directors are well informed and understand the reports.

The HR committee has worked extensively to develop a job description for our new Group Senior Manager, Michael Maloney. They've continued to work with Michael and with Branch Managers to set in place staff structures for the entire business and each individual branch. This has been a huge job given the expansion of the Company and will be ongoing.

An occupational health and safety review was conducted and new procedures adopted to ensure compliance with legislation and maximum protection of all stakeholders at all times. The Strategy committee has almost completed our new strategy plan for the next five years. We expect to have that finalised by December 2011.

Retired Director

Ian Mason retired from the Board in December 2010. Ian was one of the original steering committee members and had served on the Board of Directors for 10 years.

New Director

Carole Bury joined the Board in February 2011. Carole was the Chairman of the Doreen & Mernda Steering Committee. Carole brings enthusiasm and commitment to the Company and the **Community Bank**[®] model. She has demonstrated commitment to public service. Carole has extensive experience in events management and brings wealth of skills to the Board.

Future direction

We will spend the next 12 months consolidating our business and putting every endeavour to bringing the new branches into profit. We intend to adopt a new strategy plan and we will look to build solid asset backing for our shareholders' funds. We will now look for innovative ways to create assets that can benefit the Company's balance sheet as well as provide needed services for the community. We will also continue to explore any business opportunities that may arise. That may be sub branches, installations of ATMs, or even new **Community Bank**[®] branches.

Finally

A big thank you to all of our staff of 29 local people. This of course consists of banking staff and our two administration staff. They have embraced the **Community Bank**[®] model and put in place the processes we plan for.

Thank you to your Directors, a highly talented, skilled and qualified group of people. Each has made a huge commitment and contribution to the Company and the community.

It is certainly a great honour to serve the Company and the community with people of such high standards.

We need to acknowledge our business partner, Bendigo and Adelaide Bank Ltd (BABL). There would not be a better franchisor in this country. The BABL staff are always happy and ready to help where they can. They are instructive, constructive and a great guidance to us. Their commitment to our success is evident in all their actions.

Chairman's report continued

Could I ask you to continue to spread the word about VCFS, your **Community Bank**[®] group, and how it works for our communities? Your efforts really do help to create new customers and business for us. Your word of mouth generates an even stronger presence in our region.

A handwritten signature in black ink that reads "Barry Henwood". The signature is written in a cursive style with a large initial 'B'.

Barry Henwood

Chairman

Group Senior Manager's report

For year ending 30 June 2011

I commenced this role on 2 August 2010 and am amazed at what the Company has achieved since then. The major achievements which have consumed my time and energy in this period have been:

- Opening of Eltham & District **Community Bank**[®] Branch in October, 2010
- Opening of Doreen & Mernda **Community Bank**[®] Branch in February, 2011.

The opening of any new community branch is a big undertaking, but the opening of two new **Community Bank**[®] branches within six months of each other is something special. Both branches' markets are very different and will require an innovative approach from Branch Managers and staff to ensure their success.

With the opening of the new branches came my involvement in the recruitment of some five new staff to our Company. These staff have taken on a whole new experience in community style banking and to this point are doing a terrific job.

All of this is very exciting, but in reality, the hard work is only just beginning!

For the next 12 months the management team have set themselves challenging targets for each of their branches, targets which when achieved will ensure the ongoing success of this dynamic community Company.

For my part I will be assisting the team in a number of ways:

- Mentoring, training and encouraging the newer Managers to succeed
- Helping each Manager develop business opportunities in each of their markets
- Developing relationships with companies and organisations within our catchment to further enhance business opportunities
- Providing leadership to the management team and all of the staff
- Working closely with the Board on creating opportunity and maintaining success.

The end goal of all this work is to see each of our branches operating profitably and providing the kind of service **Community Bank**[®] branches are famous for. As a by-product of this success I look forward to seeing a community-engaged workforce, truly enjoying what they are doing and constantly striving for new and innovative ways to serve our loyal clients. I am particularly focussed on our staff and their relationships with our customers as we appear to be entering troubled economic times and the closer our relationship with our clients is, the more likely they are to turn to us when requiring assistance.

Having survived my first 12 months with VCFS Ltd I would like to thank the Board, Managers and staff for all their assistance and support during what has been an extremely busy period. I look forward to the upcoming challenges and believe as a strong team we can continue to be successful community Company constantly adding to the success of our community.



Michael Maloney
Group Senior Manager

Hurstbridge Manager's report

For year ending 30 June 2011

It is with pleasure and pride that I am able to present the Manager's annual report in our tenth year of operation.

The branch in this time has consistently met proposed business expansion levels and total business now sits at \$172 million as at 30 June 2011 – up from \$157 million last year.

It's been a year of continued growth and success as well as celebrating our 10th birthday this year. Once again the year has been an outstanding success, ongoing proof of the community acceptance of "your bank" and the embracing of the **Community Bank**[®] concept.

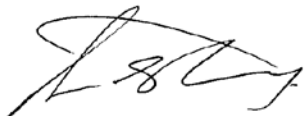
Hurstbridge should be proud of the effort that went into creating it's own **Community Bank**[®] branch and the way it has supported the branch once the doors were opened back in April 2001.

I would like to acknowledge the efforts of our dedicated staff:

Leanne Ledjott	Customer Relationship Manager
Lee Read	Customer Relationship Manager
Liam Jones	Customer Relationship Officer
Jane Shaw	Customer Service Supervisor
Sandra Coish	Customer Service Officer
Elaine Rossell	Customer Service Officer
Jo Mills	Customer Service Officer.

The team has set an example of service clearly above and beyond the call of duty. I would also like to thank the Board of Directors, our shareholders, administration staff and the regional office team for their support over the past 12 months and their continued support as the branch moves forward into the future.

I myself, as in previous years, look forward to the continued challenges and goals that are ahead of me.



Dion Shirley
Branch Manager

Diamond Creek Manager's report

For year ending 30 June 2011

Diamond Creek **Community Bank**[®] Branch is now in its seventh year of trading and this year has certainly proven to be challenging, in respect of continuing growth and customer retention.

Exciting changes in our group have taken place this financial year with the opening of Eltham & District **Community Bank**[®] Branch in August 2010 and Doreen & Mernda **Community Bank**[®] Branch in February this year. The opening of these two new branches has given our customers greater choice of where to complete their banking and the ability to align their banking and support to the community in which they live.

The addition of the new branches has impacted on Diamond Creek's growth this year. This financial year Diamond Creek **Community Bank**[®] Branch has reported banking business totalling \$89,937,000. Total number of accounts this year has grown from 4,073 to 4,111, an increase of 38. Business transferred to our two new sites combined from Diamond Creek totals \$8,816,338 and a total of 364 accounts.

While these figures might at first glance seem concerning, adding back the business that has transferred to Eltham and Doreen shows Diamond Creek's performance for the year in a healthier light.

Staffing at Diamond Creek during the financial year saw two changes: Laura Moran, my Customer Relationship Manager left on maternity leave in February and was replaced by Michelle Cosgriff, who came to us from Coburg branch and brought with her 13 years of banking experience. Our customers are now familiar with the staff and have developed relationships with them, relationships that translate into advocates amongst our community members which will improve our business.

I wish to note the performance of my team, Michelle, Melinda, Monica, Jo and Heather. Without their commitment, professionalism and dedication in the face of change we would not have achieved the results we have. Their contribution and attendance at community events is applauded. I wish to thank each and every one of them for their support over the last 12 months.

It has been exciting during the year to watch the progress of the Community Bank Stadium due for completion in November 2011. Our commitment to this project is an outstanding example of our contribution to our community.

To our shareholders and customers, I thank you for your support, without it we would not be here today, and to the Board of Directors I extend my gratitude for your ongoing support, commitment and enthusiasm over the last 12 months.

I look forward to another challenging and exciting 12 months ahead and will strive to ensure the continuing success of the branch.



Tina Elmer
Branch Manager

Eltham Manager's report

For year ending 30 June 2011

Eltham & District **Community Bank**[®] Branch was officially opened on 7 October 2010 with Cheryl Meikle as its first Branch Manager. Thanks to the efforts of Cheryl and her staff, the Branch has had early success and achieved business footings of more than \$27 million by the end of the financial year. While this is a fine start there is still much work to be done and a long way to go before the Branch is profitable.

In the period of this report, the Branch has opened more than 1,100 accounts, approved more than \$9.5 million in loans and accumulated over \$11 million in deposits. More importantly it has commenced a new style of banking relationship with a large number of Eltham & District businesses and residents who see the value in our community style of banking. Amongst our new customers are a number of clubs and community organisations keen to support our model and partner with the **Community Bank**[®] branch to enhance their local community. The branch has already been supportive of these clubs and organisations by giving out more than \$15,000 in community support funding to 30 June 2011.

It should be noted Cheryl Meikle has now left the Company to pursue a career in a different industry. We thank her for her strong performance in Eltham's early days and wish her all the best in her future career. We must also thank the following branch staff who have made a strong contribution to the branch since opening: Karen McDermott, Josie McAliece, Janine Woolnough and Annette Austin.

We have now appointed a new Branch Manager, Liam Jones who was formerly the Customer Relationship Officer at Hurstbridge branch. Having identified Liam's strong managerial and leadership skills, developed in his previous career as a senior teacher within the Education Department, the Company provided Liam with an accelerated learning program and he is being mentored by Group Senior Manager, Michael Maloney. We are confident Liam will excel in his new role and take Eltham branch to full profitability.



Michael Maloney
Group Senior Manager

Doreen & Mernda Manager's report

For year ending 30 June 2011

I am pleased to submit the very first Manager's report for Doreen & Mernda **Community Bank**[®] Branch to the 11th Annual General Meeting of Valley Community Financial Services Limited and I would like to thank our very dedicated and committed Board of Directors and Group Senior Manager for giving me the opportunity to lead this branch in the community in which I live and am so passionate about.

The branch was officially opened on 10 February 2011 and as at 30 June had reached footings of \$7,315,365, welcomed some 675 new customers and opened 809 accounts. The branch has given support to many local community projects by way of donations, sponsorship and grants totaling \$8,300.

As a new branch we face a challenging but exciting year ahead as we strive to build our business profile within our growing community and create strong, lasting relationships with our customers and business partners.

Both I, and my dedicated team of staff members Daniel, Lidia, Jenni and Michelle are eager to provide our community with a banking experience that is professional, friendly and provides exceptional customer service and I encourage all members of our local community, shareholders and local business owners to experience the **Community Bank**[®] difference.

The success and continued growth of Doreen & Mernda **Community Bank**[®] Branch is reliant upon the ongoing support of the local community because without U there is no community, no success and no us!



Jennifer Pearson
Branch Manager

Kinglake Manager's report

For year ending 30 June 2011

The Kinglake branch has completed two years of trading. Last year I reported banking business as at 30 June 2010 was \$6.6 million with 264 accounts and a way to go to meet our budgets.

I am pleased to report that business levels have continued to grow with funds under management as at 30 June 2011 exceeding \$11 million, and customer numbers increasing to 465.

We have continued to promote the branch strongly over the past 12 months by extending our hours of operation from three days per week to five days per week, as well as developing strong relationships with local schools, and community groups. These relationships have lead to a better understanding of what our community needs and assists us with our forward planning.

I urge the community to continue to support our branch so it can eventually move to a full **Community Bank**[®] branch for Kinglake and the surrounding areas and thereby increase the financial benefits that can go back to the community.

I would like to thank the staff of the Kinglake branch, Cathrine Homewood - Customer Relationship Officer and Cheryl Phillips - Customer Service Officer, for their support and the endless work they put into the local community.

I would like to also thank the Board of Directors, shareholders and the community for their support over the past 12 months.

This next financial year will again be a challenging one. We as a branch team will continue with our commitment to provide the best of service and meet your financial needs at all times.

Keep the support coming and not only will your branch reward you personally for this support but you will also see the community benefit.

I myself look forward to the new challenges and goals that are ahead of me.



Dion Shirley
Branch Manger

Treasurer's report

The financial year ended 30 June 2011 has been another successful year for VCFS Ltd. The financial statistics are as follows :

Income increased by	\$514,213	to	\$3,078,133	up	20.0%
Staffing Costs increased by	\$786,813	to	\$1,654,699	up	90.6%
Other Operating Expenses increased by	\$117,458	to	\$1,250,027	up	10.3%
Operating Profit decreased by	\$390,058	to	\$173,407	down	69.2%
Donations/Sponsorships decreased by	\$73,751	to	\$249,193	down	22.8%
Trading Profit decreased by	\$316,307	to	\$ 75,786	trading loss.	

As advised in last year's report, this year's result has reflected all of the costs of opening two new **Community Bank**[®] branches within six months during the year. Our existing businesses at Hurstbridge, Diamond Creek and Kinglake returned a significant surplus, which was exceeded by costs at Eltham and Doreen/Mernda.

Eltham & District **Community Bank**[®] Branch opened in September 2010 and had grown to \$30 million in footings by 30 June 2011. For the year, its trading result was a loss of \$513,393. Doreen & Mernda **Community Bank**[®] Branch opened in February 2011 and had grown to \$9 million in footings by 30 June 2011. For the year its trading result was a loss of \$386,678. The total loss for the new sites was \$900,071. The net result therefore for rest of the group was a trading profit of \$824,285 for the year.

All of these trading losses at the new branches as well as their capital establishment costs were funded by new capital raised to open these branches. A total of \$1,390,000 in new capital was raised by our prospectus which closed in October 2010. Eltham branch has continued to grow quickly, while Doreen & Mernda branch has now started to gain momentum, after a slower start. We require total footings at the new branches of \$100 to \$110 million to reach trading break even. We are budgeting to reach this during financial year 2012/2013. However the losses at the two new sites will reduce overall in the coming financial year, and we are budgeting for Eltham branch to lose \$304,920 and Doreen & Mernda branch \$458,520, a total of \$763,440 for the 2011/2012 year.

We have now exhausted the new capital raised, so our older branches are now contributing to the running costs of the new sites. We are budgeting for our total income to increase by \$551,000 this financial year, while expenses overall will only increase by \$270,000. This means that the Company will return to overall profit this financial year. 2012/2013 will be a stronger result, and by 2013/2014 with all five sites contributing, the Company will again be making very significant profits.

We decided to undertake this expansion as we believed it was in the longer term interests of all the stakeholders in our business. The Board sees no reason to change this view. Had Eltham and Doreen & Mernda branches opened as independent branches we believe that both sites would now be struggling. Rather than being part of a strong and progressive group, they would be competing in our area with VCFS, which would have vastly greater resources.

Had each site raised \$700,000 in capital, it would now be exhausted, and those businesses would be trading on credit. We are strong supporters of the **Community Bank**[®] model and this would not be of assistance to the brand locally, or nationally.

Eltham branch is actually growing at a faster rate than Hurstbridge branch did during its first nine months. Doreen & Mernda branch is growing at about the same rate as Diamond Creek branch grew following its opening. We urge all shareholders to be patient during the start up phase of these new businesses; we intend to be in

Treasurer's report continued

business for many years, and once all sites are contributing to the group result, a couple of comparatively lean years will be quickly forgotten.

We have maintained fully franked dividend payments of 4 cents per share to all shareholders, despite the small trading loss last year.

All branches are now fully staffed; we believe that further expansion in staff numbers will not be necessary to service our customer's needs, at least for the medium term. We have invested heavily in our staff and continue to offer great further training opportunities to up-skill in many areas. The staff have repaid our faith, by their continued outstanding performance. Our people are our main point of difference, when dealing with our business.

Other highlights were the payment of a further \$300,000 to Nillumbik Shire, for the Community Bank Stadium project in Diamond Creek. This brings our total contribution so far to \$550,000, of \$1,000,000 total commitment. The balance of \$450,000 is payable \$150,000 this financial year, and \$300,000 next financial year. This payment is treated as a pre-payment in our accounts, and as such is not expensed until the naming rights agreement commences, on the opening of the stadium.

However if this \$300,000 is added to our sponsorship/grants figures, we have actually funded \$549,193 in community benefits this financial year, a considerable increase on last year, and only exceeded in 2009, due to the special circumstances of the Black Saturday bushfires.

We continue to be a major local source of funding for a large variety of community groups and sporting clubs. We intend to continue to provide assistance throughout our now much larger service area. This is another benefit of Eltham and Doreen & Mernda branches joining VCFS. Had they stood alone, it would be several years more, before significant local funding would be available from those businesses.

I wish to thank the other members of the Finance Sub-Committee of the Board, Phil Marendaz and Stephen Bennett for their great work during the year. It has taken a considerable mental toll crunching the numbers and being satisfied that we believe we are doing the right thing. Directorship of a public Company requires persistence and concentration, particularly when dealing with the numbers, I could not wish for two better colleagues with whom to share these burdens.

I commend the Annual Report to you.



David Wheeler
Treasurer

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:

Barry Henwood

Chairman

Occupation: Newsagent Proprietor

Interests in shares: 11,000

Malcolm Hackett

Vice Chairman

Occupation: Retired

Interests in shares: 20,000

David Wheeler

Treasurer

Occupation: Vending Machine Proprietor

Interests in shares: 18,000

Ingrid Crichton

Company Secretary

Occupation: Retired

Interests in shares: 5,000

Stephen Bennett

Director

Occupation: Winery Proprietor

Interests in shares: Nil

Daryl Brooke

Director

Occupation: Consultant

Interests in shares: 7,000

Hugh Stubley

Director

Occupation: IT Consultant

Interests in shares: 4,000

Philip Marendaz

Director

Occupation: Public Accountant

Interests in shares: 5,000

Carole Bury

Director (appointed 18 January 2011)

Occupation: Events Co-ordinator

Interests in shares: 5,000

Julie Reid

Director (resigned 24 August 2011)

Occupation: Consultant

Interests in shares: 17,000

Ian Mason

Director (resigned 1 December 2010)

Occupation: Real Estate Agent

Interests in shares: 4,000

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

No Directors have material interests in contracts or proposed contracts with the Company except as disclosed below.

Directors' report continued

Principal activities

The principal activities of the Company during the course of the financial period 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

The year was a significant year for the Company. Capital of \$1.4 million was raised to fund the commencement of our Eltham and Doreen branches. The Eltham branch opened in October 2010 and the Doreen branch opened in February 2011. Our Hurstbridge and Diamond Creek branches continue to trade strongly while the growth of Kinglake continued to meet expectations.

The Company reported a loss for the financial year after provision for income tax of \$55,280 (2010: \$169,330 profit). The loss reflects the impact on trading from the new branch openings.

The cash position however remained strong, a net increase for the year of over \$226,000. During the year \$300,000 was paid under the naming rights agreement for the Community Bank Stadium which is now in the construction stage. Total cost of the naming rights is \$750,000 for a ten year period, the balance is to be paid over the next two years. A further \$249,193 was returned to the community in sponsorship payments.

Dividends	Year ended 30 June 2011	
	Cents per share	\$'000
Dividends paid in the year:	4	158,464

Significant changes in the state of affairs

On 22 February 2011, Bendigo and Adelaide Bank Ltd announced that commencing 1 April 2011, two income streams (Term Deposits greater than 90 days and Fixed Rate Home Loans) will have their trailing commission cut from 0.5% to 0.375%. This reduction in commission rate is expected to have a material effect on the expected revenue and profits of the Company.

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

Significant events after the balance date

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

Likely developments

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

Remuneration report

The Board is responsible for the determination of remuneration packages and policies applicable to the Branch Managers and all the staff.

Directors' report continued

Remuneration report (continued)

The Branch Managers do not participate in decision making that affects the whole or a substantial part of the business, nor do they have the capacity to affect significantly the Company's financial standing. On a rotational basis and by invitation, the Branch Managers attend Board meetings to provide Directors with an overview of their Branch's performance.

The Group Senior Manager, Michael Maloney, was appointed on 2 August 2010. The Group Senior Manager attends and participates in decision making that affects the whole or a substantial part of the business. As at 30 June 2011, Michael Maloney was paid between \$100,000 and \$130,000 (plus 9% SGC) for services performed as Group Senior Manager.

Office supplies and equipment expenses were paid to Blackburn South Newsagency - an associated entity of Director Barry Henwood. During the year an amount of \$7,754 (2010: \$7,508) was paid to Blackburn South Newsagency.

Office equipment expenses were paid to Trinity Digital Pty Ltd - an associated entity of Director Hugh Stublely. During the year an amount of \$1,170 (2010: \$8,073) was paid to Trinity Digital Pty Ltd.

Accounting Services expenses were paid to Marendaz Pty Ltd - an associate entity of Director Phil Marendaz. During the year \$54,923 (2010: 45,341) was paid to Marendaz Pty Ltd.

All payments to Directors were properly disclosed, and were made strictly on a commercial basis.

Director Remuneration for the year ended 30 June 2011

	Primary benefits salary & fees 2011 \$	Primary benefits salary & fees 2010 \$
Barry Henwood	15,000	15,000
Malcolm Hackett	7,000	7,000
David Wheeler	10,000	10,000
Ingrid Crichton	7,000	7,000
Stephen Bennett	4,000	4,000
Daryl Brooke	4,000	1,000
Hugh Stublely	4,000	4,000
Philip Marendaz	4,000	4,000
Ian Mason (resigned 1 December 2010)	2,000	4,000
Julie Reid (resigned 24 August 2011)	7,000	7,000
Carole Bury (appointed 18 January 2011)	2,000	Nil

Directors' report continued

Remuneration report (continued)

Other than stated above, a contribution of 9% superannuation guarantee payment was made to each Directors' superannuation plan in accordance with Government legislation. Apart from this, 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.

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' meetings

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

Director	Board meetings #	Audit committee meetings #
Barry Henwood	11 (12)	N/A
Malcolm Hackett	11 (12)	N/A
David Wheeler	12 (12)	02 (02)
Ingrid Crichton	12 (12)	N/A
Stephen Bennett	12 (12)	02 (02)
Daryl Brooke	12 (12)	N/A
Hugh Stublely	10 (12)	N/A
Philip Marendaz	12 (12)	N/A
Ian Mason (resigned 1 December 2010)	05 (06)	N/A
Julie Reid (resigned 24 August 2011)	10 (12)	N/A
Carole Bury (appointed 18 January 2011)	06 (06)	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.

Directors' report continued

Company Secretary

The Company Secretary is Ingrid Crichton. Ingrid was appointed to the position of Company Secretary on 25 May 2011. Ingrid has worked in the Federal Public Service, hearing appeals, investigating staff grievances, mediating and resolving disputes as well as undertaking staff selection work for numerous agencies ranging from Customs and the ATO to the Federal Police, ASIC and the ACCC. Ingrid is Chair of the Company's Human Resources Committee.

Corporate governance

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

- (a) Twice yearly audit committee meetings. Members of the audit committee are David Wheeler and Stephen Bennett;
- (b) Director approval of operating budgets and monitoring of progress against these budgets;
- (c) Ongoing Director training;
- (d) Monthly Director meetings to discuss business performance, policies and procedures and other matters;
- (e) Comprehensive review of policy & procedures; and
- (f) The establishment of a Strategic Plan.

Non audit services

Details of amounts paid or payable to the Auditor for non-audit services provided during the financial year by the Auditor are outlined in note 5 to the financial statements.

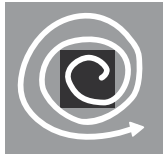
The Directors have considered the non-audit services provided during the year by the Auditor and are satisfied the provision of these services is compatible with the general standards of independence for Auditors imposed by the Corporations Act 2001 for the following reasons:

- (a) all non audit services have been reviewed to ensure they do not impact the integrity and objectivity of the Auditor; and
- (b) none of the services undermine the general principles relating to Auditor independence as set out in APES 110 Code of Ethics for Professional Accountants as they did not involve reviewing the Auditors own work, acting in management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Directors' report continued

Auditor Independence Declaration

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



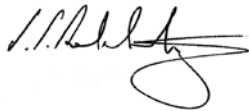
**Richmond
Sinnott &
Delahunty**

CHARTERED ACCOUNTANTS

Level 2, 10 -16 Forest Street
PO Box 30
Bendigo. 3552
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Fax. 03 5444 4344
E-mail: rsd@rsdadvisors.com.au

Auditor's Independence Declaration

In relation to our audit of the financial report of Valley Community Financial Services Ltd 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.



Philip Delahunty
Partner

Richmond Sinnott & Delahunty

9 September 2011

Signed in accordance with a resolution of the Board of Directors at Diamond Creek on 9 September 2011.



David Wheeler, Director

Financial statements

Statement of comprehensive income for the year ended 30 June 2011

	Note	2011 \$	2010 \$
Revenues from continuing operations	2	3,078,134	2,563,920
Employee benefits expense	3	(1,660,742)	(867,886)
Charitable donations and sponsorship		(249,193)	(322,944)
Depreciation and amortisation expense	3	(113,490)	(239,674)
Advertising and marketing		(86,809)	(78,821)
Other expenses		(1,043,686)	(814,074)
Profit / (loss) before income tax expense		(75,786)	240,521
Income tax expense / (benefit)	4	20,506	(71,191)
Profit / (loss) after income tax expense		(55,280)	169,330
Other comprehensive income		-	-
Total comprehensive income		(55,280)	169,330
Earnings per share (cents per share)			
- basic for profit / (loss) for the year	22	(1.49)	6.36
- diluted for profit / (loss) for the year	22	(1.49)	6.36

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	603,754	377,340
Receivables	7	209,895	215,143
Other assets	8	302,514	12,513
Total current assets		1,116,163	604,996
Non-current assets			
Property, plant and equipment	9	820,687	394,431
Intangible assets	10	239,538	6,840
Deferred tax assets	4	40,736	20,230
Total non-current assets		1,100,961	421,501
Total assets		2,217,124	1,026,497
Current liabilities			
Payables	11	96,050	129,946
Provisions	12	115,162	67,433
Total current liabilities		211,212	197,379
Total liabilities		211,212	197,379
Net assets		2,005,912	829,118
Equity			
Share capital	13	2,055,876	665,338
Retained earnings	14	(49,964)	163,780
Total equity		2,005,912	829,118

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		2,999,438	2,763,704
Cash payments in the course of operations		(3,268,993)	(2,302,280)
Interest received		37,112	13,502
Income tax refund / (paid)		846	(42,199)
Net cash flows from / (used in) operating activities	15b	(231,597)	432,727
Cash flows from investing activities			
Payments for property, plant and equipment		(495,293)	(316,564)
Payments for franchise and renewal fees		(278,770)	-
Net cash flows used in investing activities		(774,063)	(316,564)
Cash flows from financing activities			
Dividends paid		(158,464)	(168,996)
Shares issued		1,390,538	-
Net cash flows from / (used in) financing activities		1,232,074	(168,996)
Net increase / (decrease) in cash held		226,414	(52,833)
Cash and cash equivalents at start of year		377,340	430,173
Cash and cash equivalents at end of year	15a	603,754	377,340

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		665,338	665,338
Issue of share capital		1,390,538	-
Share issue costs		-	-
Balance at end of year		2,055,876	665,338
Retained earnings			
Balance at start of year		163,780	163,446
Profit / (loss) after income tax expense		(55,280)	169,330
Dividends paid	21	(158,464)	(168,996)
Balance at end of year		(49,964)	163,780

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

Valley Community Financial Services Ltd ('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 9 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. Land and buildings are measured at fair value less accumulated depreciation.

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

Class of asset	Depreciation rate
Buildings	2.5% - 15%
Computers	40%
Plant & equipment	5% - 37.5%

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.

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.

Notes to the financial statements continued

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

Goods and services tax (continued)

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.

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.

Notes to the financial statements continued

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

Provisions (continued)

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.

	2011 \$	2010 \$
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Note 2. Revenue from continuing operations

Operating activities

- services commissions	3,041,022	2,550,418
- other revenue	-	-
	3,041,022	2,550,418

Non-operating activities:

- interest received	37,112	13,502
	37,112	13,502
	3,078,134	2,563,920

Note 3. Expenses

Employee benefits expense

- wages and salaries	1,333,600	720,343
- superannuation costs	115,792	63,087
- workers' compensation costs	3,408	3,185
- other costs	207,942	81,271
	1,660,742	867,886

Notes to the financial statements continued

	2011 \$	2010 \$
Note 3. Expenses (continued)		
Depreciation of non-current assets:		
- plant and equipment	56,162	172,052
- leasehold improvements	11,256	46,647
Amortisation of non-current assets:		
- franchise fee / start up costs	46,072	20,975
	113,490	239,674
Bad debts	2,576	3,489

Note 4. Income tax expense

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

Prima facie tax on profit / (loss) from ordinary activities at 30%	(22,736)	72,156
Add / (less) tax effect of:		
- Non deductible / (other deductible) expenses	2,230	(965)
- Movement in deferred tax asset	14,318	(7,820)
Current income tax expense / (benefit)	(6,188)	63,371
Movement in deferred tax asset	(14,318)	7,820
Income tax expense / (benefit)	(20,506)	71,191
Deferred tax assets		
Future income tax benefits are recognised at reporting date as realisation of the benefit is regarded as probable.	40,736	20,230

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 and printing services	6,835	3,454
	10,735	7,354

Note 6. Cash and cash equivalents

Cash at bank and on hand	603,754	377,340
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Notes to the financial statements continued

	2011	2010
	\$	\$
Note 7. Receivables		
Commission receivable	209,895	215,139
Sundry debtors	-	4
	209,895	215,143

Note 8. Other assets

Prepayments	302,514	11,667
Current tax refundable	-	846
	302,514	12,513

Note 9. Property, plant and equipment

Leasehold improvements

At cost	616,706	271,500
Less accumulated depreciation	(45,981)	(34,725)
	570,725	236,775

Plant and equipment

At cost	482,590	343,771
Less accumulated depreciation	(232,628)	(186,115)
	249,962	157,656

Total written down amount	820,687	394,431
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Movements in carrying amounts

Leasehold improvements

Carrying amount at beginning of year	236,775	117,004
Additions	345,206	166,418
Depreciation expense	(11,256)	(46,647)
Carrying amount at end of year	570,725	236,775

Notes to the financial statements continued

	2011 \$	2010 \$
Note 9. Property, plant and equipment (continued)		
Plant and equipment		
Carrying amount at beginning of year	157,656	179,562
Additions	150,087	150,146
Disposals	(1,619)	-
Depreciation expense	(56,162)	(172,052)
Carrying amount at end of year	249,962	157,656

Note 10. Intangible assets

Franchise fee / start up costs		
At cost	383,647	104,877
Less accumulated amortisation	(144,109)	(98,037)
	239,538	6,840

Note 11. Payables

Trade creditors	82,927	120,852
Accrued other expenses	13,123	9,094
	96,050	129,946

Note 12. Provisions

Employee benefits	115,162	67,433
Provision for taxation	-	-
	115,162	67,433
Movement in employee benefits		
Opening balance	67,433	93,223
Additional provisions recognised	102,584	55,411
Amounts utilised during the year	(54,855)	(81,201)
Closing balance	115,162	67,433

Notes to the financial statements continued

	2011 \$	2010 \$
Note 13. Share capital		
2,055,876 Ordinary shares fully paid of \$1.00 each	2,055,876	665,338

During the 2009/10 financial year shareholders received a 3 for 1 bonus issue taking the total shares issued from 665,338 to 2,661,352.

In May 2010 the prospectus was issued to raise capital for the opening of branches at Eltham and Doreen. During the 2010/11 financial year 1,390,538 shares were issued raising a total \$1,390,538 and taking the total shares issued from 2,661,352 to 4,051,890.

Note 14. Retained earnings

Balance at the beginning of the financial year	163,780	163,446
Profit after income tax	(55,280)	169,330
Dividends	(158,464)	(168,996)
Balance at the end of the financial year	(49,964)	163,780

Note 15. Statement of cash flows

(a) Cash and cash equivalents

Cash assets	603,754	377,340
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(b) Reconciliation of profit / (loss) after tax to net cash from operating activities

Profit / (loss) after income tax	(55,280)	169,330
Non cash items		
- Depreciation	67,418	218,699
- Amortisation	46,072	20,975
- Loss on disposal of fixed assets	1,619	-
Changes in assets and liabilities		
- (Increase) decrease in deferred tax asset	(20,506)	7,820
- (Increase) decrease in receivables / other assets	(285,599)	(3,720)
- Increase (decrease) in payables	(33,896)	24,241
- (Decrease) increase in income tax refundable	846	21,172
- Increase (decrease) in provisions	47,729	(25,790)
Net cash flows from / (used in) operating activities	(231,597)	432,727

Notes to the financial statements continued

Note 16. Director and related party disclosures

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

Barry Henwood
Malcolm Hackett
David Wheeler
Ingrid Crichton
Stephen Bennett
Daryl Brooke
Hugh Stublely
Philip Marendaz
Ian Mason (resigned 1 December 2010)
Julie Reid (resigned 24 August 2011)
Carole Bury (appointed 18 January 2011)

Other than detailed below no Director or related entity has entered into a material contract with the Company. Office supplies and equipment expenses were paid to Blackburn South Newsagency - an associated entity of Director Barry Henwood. During the year an amount of \$7,754 (2010: 7,508) was paid to Blackburn South Newsagency.

Office equipment expenses were paid to Trinity Digital Pty Ltd - an associated entity of Director Hugh Stublely. During the year an amount of \$1,170 (2010: \$8,073) was paid to Trinity Digital Pty Ltd.

Accounting Services expenses were paid to Marendaz Pty Ltd - an associate entity of Director Phil Marendaz. During the year \$54,923 (2010: 45,341) was paid to Marendaz Pty Ltd.

Director Remuneration for the year ended 30 June 2011

	Primary benefits salary & fees 2011 \$	Primary benefits salary & fees 2010 \$
Barry Henwood	15,000	15,000
Malcolm Hackett	7,000	7,000
David Wheeler	10,000	10,000
Ingrid Crichton	7,000	7,000
Stephen Bennett	4,000	4,000
Daryl Brooke	4,000	1,000
Hugh Stublely	4,000	4,000
Philip Marendaz	4,000	4,000
Ian Mason (resigned 1 December 2010)	2,000	4,000
Julie Reid (resigned 24 August 2011)	7,000	7,000
Carole Bury (appointed 18 January 2011)	2,000	Nil

Notes to the financial statements continued

Note 16. Director and related party disclosures (continued)

Directors' shareholdings	2011	2010
Barry Henwood	11,000	6,000
Malcolm Hackett	20,000	-
David Wheeler	18,000	8,000
Ingrid Crichton	5,000	-
Stephen Bennett	-	-
Daryl Brooke	7,000	-
Hugh Stubley	4,000	-
Philip Marendaz	5,000	-
Ian Mason (resigned 1 December 2010)	4,000	4,000
Julie Reid (resigned 24 August 2011)	17,000	-
Carole Bury (appointed 18 January 2011)	5,000	-

Each share is fully paid to \$1. Additional shares were purchased during the year as shown above.

Note 17. Subsequent events

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

Note 18. Contingent liabilities and assets

There are no other contingent liabilities or assets at the date of this report to affect the financial statements.

Note 19. Segment reporting

The economic entity operates in the financial services sector where it provides banking services to its clients. The economic entity operates within the Shires of Nillumbik, Whittlesea and Murrundindi, Victoria.

Note 20. Corporate information

Valley Community Financial Services Ltd is a Company limited by shares incorporated in Australia, whose shares are publicly traded on the Bendigo Stock Exchange.

The registered office of the Company is:

8B 75/77 Main Hurstbridge Road,
Diamond Creek VIC 3089

Notes to the financial statements continued

Note 20. Corporate information (continued)

The principal places of business are:

808 Main Road, Hurstbridge VIC 3099	Shop 8, 75-77 Main Hurstbridge Road, Diamond Creek VIC 3089	1 Glenburn Road, Kinglake Vic 3763
Shop 3, 101 Hazel Glen Drive, Doreen VIC 3754	1036 Main Road, Eltham VIC 3095	

	2011 \$	2010 \$
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Note 21. Dividends paid or provided for on ordinary shares

(a) Dividends paid during the year

Franked dividends - 4.00 cents per share (2010: 6.35 cents per share)	158,464	168,996
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(b) Dividends proposed and not recognised as a liability

Franked dividends - 0.00 cents per share (2010: 6.0 cents per share)	-	160,000
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(c) 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	143,186	211,944
- Franking credits that will arise from the payment/(refund) of income tax payable/(refundable) as at the end of the financial year	-	(846)
	143,186	211,098

The tax rate at which dividends have been franked is 30% (2010: 30%).

Note 22. Earnings per share

Basic earnings per share amounts are calculated by dividing profit / (loss) 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 / (loss) 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).

Notes to the financial statements continued

	2011	2010
	\$	\$
Note 22. Earnings per share (continued)		
The following reflects the income and share data used in the basic and diluted earnings per share computations:		
Profit / (loss) after income tax expense	(55,280)	169,330
Weighted average number of ordinary shares for basic and diluted earnings per share	3,702,968	2,661,352

Note 23. Financial risk management

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

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

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

(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	603,754	377,340
Receivables	209,895	215,143
	813,649	592,483

The Company's exposure to credit risk is limited to Australia by geographic area. The majority of the balance 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.

Notes to the financial statements continued

Note 23. Financial risk management (continued)

(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.

	Carrying amount \$	Contractual cash flows \$	1 year or less \$	Over 1 to 5 years \$	More than 5 years \$
30 June 2011					
Payables	96,050	(96,050)	(96,050)	-	-
	96,050	(96,050)	(96,050)	-	-
30 June 2010					
Payables	129,946	(129,946)	(129,946)	-	-
	129,946	(129,946)	(129,946)	-	-

(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.

Notes to the financial statements continued

Note 23. Financial risk management (continued)

(c) Market risk (continued)

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	233,284	220,000
Financial liabilities	-	-
	233,284	220,000
Variable rate instruments		
Financial assets	370,470	157,340
Financial liabilities	-	-
	370,470	157,340

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.

Notes to the financial statements continued

Note 23. Financial risk management (continued)

(e) Capital management (continued)

- (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 Valley 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;
- (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; and
- (c) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2011.



David Wheeler, Director

Signed at Diamond Creek on 9 September 2011.

Independent audit report



**Richmond
Sinnott &
Delahunty**

Chartered Accountants

**INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF VALLEY COMMUNITY
FINANCIAL SERVICES LTD**

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 Valley Community Financial Services Ltd, 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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ABN 60 616 244 309

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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 Valley Community Financial Services Ltd 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

Chartered Accountants


Philip Delahunty
Partner
Bendigo

Date: 9 September 2011

BSX report

Additional information required by the Bendigo Stock Exchange and not shown elsewhere in this report is as follows. This information is current as at 29 August 2011.

Corporate governance statement

The Board guides and monitors the business and affairs on behalf of the shareholders to whom they are accountable.

The Board recognises the importance of a strong corporate governance focus and methodology. The Board has compiled policies and procedures that will govern our Company into the future. We believe that building a policy framework will assist to clarify the future direction of our local Company, provide accountability and transparency and ensure there are guiding principles in place for future decision making. The Board does have an Audit Committee.

Substantial shareholders – ten largest shareholders

The following table illustrates the 10 largest shareholders.

Shareholder	Number of shares	Percentage of capital
Graham Dryden & Clare Dryden <Graden Engineering Super Fund A/C>	120,000	2.96%
C E Lance & D G Lance <Lance Super Fund A/C>	90,000	2.22%
Gregory John Howlett <GH Superannuation Fund A/C>	87,000	2.14%
B and E Stevens	70,000	1.72%
D Trezise	65,000	1.60%
N Trezise	65,000	1.60%
A Jupp <Trash N Stash Super Fund A/C>	60,000	1.48%
B Mitchell	60,000	1.48%
H Mitchell	60,000	1.48%
B Donnelly	60,000	1.48%

Voting rights

Each shareholder is entitled to 1 vote, irrespective of the number of shares held. There are no substantial shareholders (holding more than 5% of voting rights) so each shareholder is entitled to 1 vote. Normally holding more than 5% of total issued shares would create a substantial shareholder, but this is not applicable due to the voting restrictions for the Company.

BSX report continued

Distribution of shareholders

The following table provides a breakdown of the shareholders, categorised by the number of shares held.

Category	Number of shareholders
1-1,000	131
1,001 – 5,000	372
5,001 – 10,000	89
10,001 – 100,000	70
100,001 and over	1
Total shareholders	663

There are no shareholders holding less than a marketable parcel of shares. There are no restricted securities on issue and all shares on issue are ordinary shares fully paid. There are no unquoted equity securities.

Registered office and principal administrative office of the Company is:

Shop 8B, 75-77 Main Hurstbridge Road,
Diamond Creek VIC 3089
Phone: (03) 9438 3194
Fax: (03) 9438 4960
Email: administration@valleyfinancial.com.au

Security Register (share registry) is kept at:

Richmond Sinnott & Delahunty
Chartered Accountants
Level 2, 10-16 Forest Street,
Bendigo VIC 3550
Phone: (03) 5443 1177
Fax: (03) 5444 4344
Email: shareregistry@rsdadvisors.com.au

Other information

Please refer to the Directors' Report, within the annual report, for details of the Company Secretary.

There are no material differences between the information in the Company's Annexure 3A and the information in the financial documents in its annual report.

Hurstbridge & Districts **Community Bank**[®] Branch
808 Main Road, Hurstbridge VIC 3099
Phone: (03) 9718 0431

Diamond Creek **Community Bank**[®] Branch
Shop 8, 75-77 Main Hurstbridge Road, Diamond Creek VIC 3089
Phone: (03) 9438 4133

Eltham & District **Community Bank**[®] Branch
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Phone: (03) 9439 0188

Doreen & Mernda **Community Bank**[®] Branch
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Kinglake branch
1 Glenburn Road, Kinglake VIC 3763
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