

Chairman's Address

I am very pleased to report to shareholders and customers on behalf of the Board another strong year for our company during 2011/12. This result has been achieved despite increased competition in the financial services sector, continued global financial turmoil, a suppressed domestic confidence and expected slower economic growth. To establish this financial result across what has been a very challenging period is certainly pleasing for all associated with Community Financial Services Victoria Ltd. We thank our business partner Bendigo and Adelaide Bank for their continued support and guidance throughout the year with all aspects of our business.

I'd like to touch on several pertinent points and situations covering the last twelve months in the Community Bank world.

\$80 million returned to communities

Thanks to the support of **Community Bank**[®] customers and shareholders the Australia-wide network has now returned more than \$80 million to support and strengthen local communities.

Our **Community Bank**[®] has played a key role in this milestone, returning more than \$3 million dollars to our local community along with handsome dividends returned to local shareholders.

These community grants and sponsorships have made a significant difference to a number of local organisations including the 1st Lang Lang Scout Group who have once again provided us with great service for our AGM. We have partnered with several new community support initiatives, Defib for Life, Oz Child, Youth Action Group & Green light driver Education, our board are proud to be apart of these rewarding community programs and look forward to continuing to support our many community groups and others as more people bank with us and we become more successful.

Interest rate movements

Our **Community Bank**[®] company and our partner Bendigo and Adelaide Bank, encourages transparency when setting interest rates and fees.

We believe it is our shared responsibility to ensure customers understand the environment banks operate in, so they can make educated judgement calls on who they choose to do their banking business with.

Our bank is committed to appropriately adjusting its interest rates (be it up or down) to ensure a fair balance is achieved between all of our stakeholders - borrowers, depositors, shareholders staff and the communities we partner with.

Ratings upgrade

In December 2011, Bendigo and Adelaide Bank joined Australia's A-rated banks following an upgrade announced by Standard & Poor's (S&P).

S&P's decision to raise the Bank's long-term rating from BBB+ to A- means the Bank, including it's **Community Bank**[®] partners, is now rated 'A' by all three of the world's leading credit rating agencies.

Restoring the Balance update

Funding for all banks is expensive and likely to remain so, as a result 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 **Community Bank**[®] company's margin share with our franchise partner Bendigo and Adelaide Bank. We still share margin (in part based on fixed trails) but this is continuing to reflect a skew in margin share between the Bank and its **Community Bank**[®] partners.

We've been working together 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 we remain committed to addressing this with our partner.

Government Guarantee

In September 2011, the Federal Government announced changes to its Financial Claims Scheme (FCS), also known as the "government guarantee", lowering it from \$1 million to \$250,000 effective 1 February 2012.

All **Community Bank**[®] branches operate under Bendigo and Adelaide Bank's banking licence, and as such all deposits held with a **Community Bank**[®] branch are guaranteed by the Federal Government and supported by capital supplied by their franchise partner, Bendigo and Adelaide Bank.

Lowering the cap is an indication of the strength of Australian banks, including Bendigo and Adelaide Bank and the combination of healthy, profitable banks and strong prudential regulation is the best guarantee our customers have that their money is safe in our bank.

Board Appointments

Since the last Chairman's report our Board has experienced some personnel changes.

On behalf of all shareholders, customers and Board members I would like to thank our three retiring Directors Mr John Lyle, Mr Ron Witney and Mr Rudy de Jong for their years of commitment to Community Financial Services Victoria Ltd and our Community Bank[®] branches. Our company's strong results are reflected in the performance of these Directors over the journey to date. We have welcomed Di Loft to the Board this year and we wish her well and thank her for accepting a Directorship with our company.

Appreciation

I would like to convey our thanks to the hard working front line staff of our Community Bank® branches, well lead by our dedicated team of Branch Managers.

To our business partner, Bendigo and Adelaide Bank, thank you and we look forward to further success in the future.

To our fellow shareholders, thank you for your continued enthusiastic support. Your committed hardworking Board members are always mindful of the faith our shareholders have shown.

To my fellow Board members well done and thank you for another year of enthusiastic engagement, you are a terrific team, our company is in good hands and with that knowledge we can all look forward to the future with confidence.

To Tania Hansen our diligent CEO, another outstanding years work, a pillar of strength to the Board and the Chairman, we thank Tania for her continued commitment.