

Clifroy Limited

ABN 31 114 604 358

annual report 2011



Clifton Hill/North Fitzroy **Community Bank**[®] Branch

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Chairman's report

For year ending 30 June 2011

Dear shareholder,

It gives me great pleasure to present this sixth Annual Report to shareholders on behalf of the Board of Clifroy Ltd. During the 2010/11 financial year your **Community Bank**[®] Company celebrated a number of notable achievements.

In October 2010 our total business exceeded \$100 million for the first time; in January we signed a further five year Franchise Agreement with Bendigo and Adelaide Bank Ltd and also extended the lease on our premises for the same period. February saw the celebration of our fifth year of operation, and during March our contributions to local community organisations topped \$200,000. More recently at our July Board meeting we committed to pay our first dividend to shareholders.

Our business

The 2010/11 financial year was one of our most successful with over 20% growth in total business to \$121 million, split approximately 65/35 between deposits and loans. We maintained tight control on our operating costs and our start up losses have now been eliminated.

Your Board is confident that the Company has established a solid and sustainable foundation, and despite the continuing financial turmoil gripping the world, is well placed to continue growing its business and its profits.

Our community

Direct community contributions via sponsorships and donations reached \$116,000 over the year, with some 60 local organisations now having received funds from Clifroy. A further \$40,000 was spent on a range of networking and other community events and marketing activities all designed to build community partnerships and grow the business.

In June we took the decision to initiate a Community Grants program which will enable charities and not for profit organisations in our community, to access grants for projects that have a substantial community benefit.

To fund this program an initial sum of \$45,455 (\$50,000 inc GST) has been lodged with Community Enterprise Foundation™ – a tax efficient trust fund which will help us with the program administration. The launch of this exciting new community scheme will take place at our Annual General Meeting on 10 November 2011.

Our Board, management and staff

The excellent results we have achieved over the last year would not have been possible without the commitment and enthusiasm of our staff and Board.

Our Manager Rod May continues to demonstrate great leadership and tenacity in the pursuit of outstanding customer service and business growth. Our branch staff, David Burdett, Toni Vavala, Carole Morton, Jessica McKean, Eli Inanir, and newcomer Michael Goode, have evolved into a popular and efficient team which is much appreciated by our customers.

Chairman's report continued

Our Board Assistant Andrea Foxworthy and Bookkeeper Nicky White continue to work hard behind the scenes to ensure the smooth running of the Board functions. Our Marketing Coordinator Julie Carroll has decided it is time to retire, and we thank her sincerely for her huge efforts on our behalf over the last four years.

Our Board has seen more changes this year than at any time in our history. Karen Dynon, Manuel Tsirmiris, John Price and Ro Marks resigned during the year, depriving us of their wisdom and enthusiasm. Jennifer Gawne has recently announced her decision to stand down at our AGM and will also be sorely missed.

Happily, we have been able to attract an enthusiastic group of new young Directors – Yann Burden, Aisling Callaghan, and Clare Carmody, who are already making a significant contribution to our business. Our most recent recruit in July is Peter Hille, who is well known in the community for his long involvement in Rotary and the Fitzroy Reds.

My sincere thanks goes to our Manager, our staff, and my fellow Directors for their continuing commitment to this valuable community enterprise we have all created.

Our shareholders

In thanking our 302 shareholders for their continuing support, I am proud to report to them that we have achieved or surpassed every commitment we made in our prospectus in 2005. Our total business exceeds our most optimistic projections. The Company is profitable, and as at the end of June 2011 has built up equity of \$784,000, equivalent to 90c per share.

Shareholders have received two 5c returns of capital per \$1 share since 2008, and our first dividend of 8c per share will be paid at the end of October 2011. Since we opened our doors, local community groups have received over \$220,000 in support of their activities – a community dividend equivalent to 25c per share.

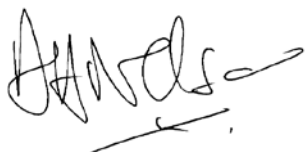
Our vision and mission

Clifton Hill/North Fitzroy **Community Bank**[®] Branch provides a full banking service that benefits both shareholders and the local community, and we aim to become the first choice for banking in this area.

We encourage those shareholders who still do not bank with Clifton Hill/North Fitzroy **Community Bank**[®] Branch to see what we offer, and hope to encourage you to become committed advocates in the year ahead.

To visually illustrate the achievements of Clifroy Ltd over its five year history, we have for the first time provided data in charts which are shown on page 5.

On behalf of the Board, we look forward to meeting shareholders again at our Annual General Meeting on Thursday 10 November 2011.



Adrian H Nelson
Chairman

Manager's report

For year ending 30 June 2011

As a traditional banker with over 26 years experience in mainstream banking, I continue to be amazed at the success and sustainability of the **Community Bank**[®] model and the diversity of the community outcomes.

Across the country, the **Community Bank**[®] network has now expanded to 276 branches that have returned more than \$58 million in community grants, \$40 million of which has been generated in just the past four years.

Closer to home the Clifton Hill/North Fitzroy **Community Bank**[®] Branch completed an outstanding year which coincided with the celebration of our 5th birthday in February 2011.

As at 30 June 2011, the Clifton Hill/North Fitzroy **Community Bank**[®] Branch held 4,373 accounts and \$120,907,243 total business on its books. Deposit accounts totaled 3,799 while loans totaled 574. Income for the year was \$1,006,583 which was \$54,516 (5.7%) ahead of our budget and \$170,520 (20.4%) ahead of our 2010 financial year result. Direct operating expenses were carefully controlled to end the year almost 5% below budget, resulting in an operating profit for the 12 months after tax of \$138,312.

Another very successful year achieved by my very committed team of David Burdett, Toni Vavala, Eli Inanir, Jessica McKean, Carole Malone and Michael Goode. I thank them for their ongoing support and dedication in working for the benefit of our community.

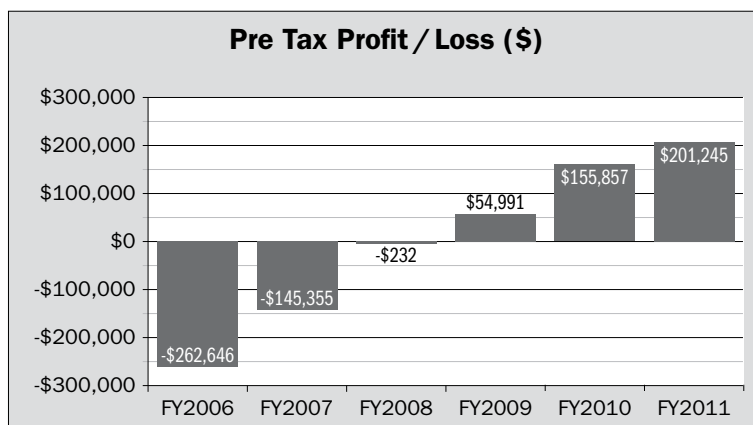
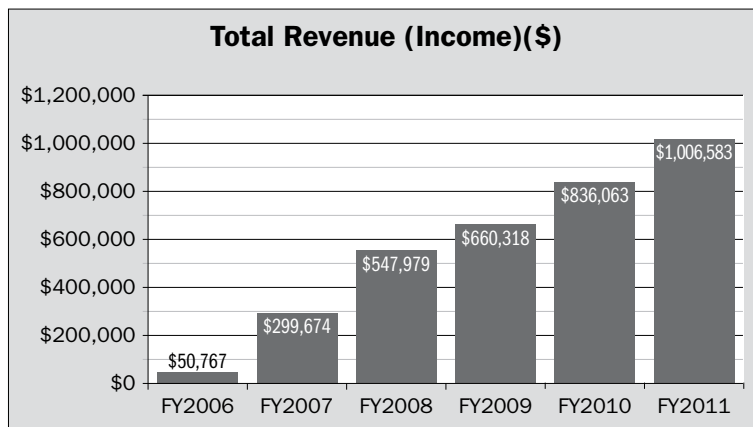
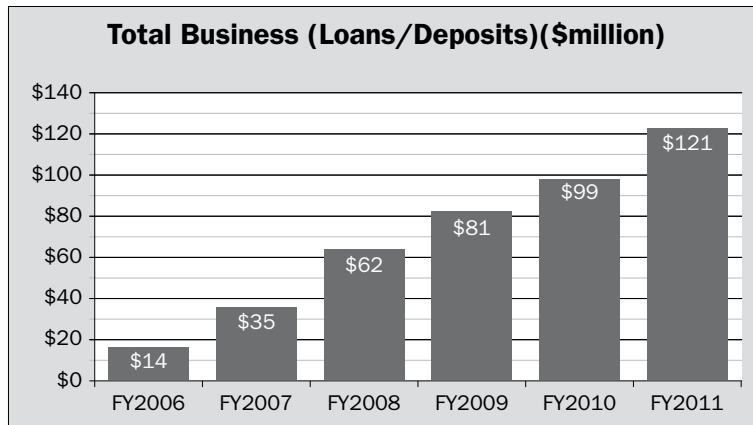
I wish to thank the Clifroy Board of Directors who continue to be very active in again providing valuable support, direction and governance to my team and the model ensuring that we are relevant to our community.

Finally, to all our stakeholders, remember as always to continually spread the word as awareness creates opportunity which contributes to success.



Rod May
Branch Manager

Performance graphs



Bendigo and Adelaide Bank Ltd report

For year ending 30 June 2011

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 organising and strengthening community.

Together, we have reached new heights and achieved many great successes, all of which has been underpinned by our commitment and dedication to the communities we're a part of.

Together we're making extraordinary progress, with more than \$58.25 million returned to support community groups and endeavours since the network was established in 1998.

The returns grow exponentially each year, with \$469 thousand 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. Based on this, we can predict the community returns should top \$100 million within the next three years, which equates to new community facilities, better health care, increased transport services and generally speaking, more prosperous communities.

Together, we haven't just returned \$58.25 million; there is also the flow on economic impact to consider. Bendigo and Adelaide Bank is in the process of establishing an evidential basis that captures the complete picture and the economic outcomes these initiatives generate. However, the tangible outcomes are obvious. We see it in tenanted shops, increased consumer traffic, retained local capital and new jobs but we know that there are broader elements of community strength beyond the economic indicators, which demonstrate the power of our community models.

It is now evident that branches go through a clear maturity phase, building customer support, generating surpluses and establishing a sustainable income stream. This enables Boards to focus less on generating business and more on the community's aspirations. Bendigo is facilitating this through Director engagement and education, community consultations and other community solutions (Community Enterprise Foundation[™], Community Sector Banking, Community Telco, Generation Green[™] and Community Enterprises) that will provide Boards with further development options.

In Bendigo, your **Community Bank**[®] Board has a committed and successful partner. Our past efforts and continued commitment to be Australia's leading customer-connected bank, that is relevant, connected and valued, is starting to attract attention and reap rewards.

In January, a Roy Morgan survey into customer satisfaction saw Bendigo Bank achieve an industry leading score among Australian retail banks. This was the first time Bendigo Bank has led the overall results since August 2009.

In May, Fitch Ratings upgraded Bendigo and Adelaide Banks Long-Term Issuer Default Rating (IDR) to A- from BBB+. This announcement saw us become the first Australian bank – and one of the very few banks globally – to receive an upgrade since the Global Financial Crisis.

Standard & Poor's revised credit rating soon followed seeing Bendigo and Adelaide Bank shift from BBB+ stable, to BBB+ positive. These announcements reflect the hard and diligent work by all our staff, our sound risk management practices, low-risk funding and balance sheet structure, sound capital ratios and a sustained improvement in profitability.

The strength of our business model – based on our commitment to our customers and the communities that we operate in – is being recognised by all three ratings agencies.

Bendigo and Adelaide Bank Ltd report continued

Over the past year the bank has also added more than 700 additional ATMs through a network sharing agreement with Suncorp Bank, which further enhances our customers' convenience and expands our footprint across the country. In addition to this a further 16 **Community Bank**[®] branches were opened.

The bank has also had a renewed focus on business banking and re-launched our wealth management services through Bendigo Wealth, which oversees the Adelaide Bank, Leveraged Equities, Sandhurst Trustees and financial planning offering.

The **Community Bank**[®] model is unique and successful, it's one of our major points of difference and it enables us to connect with more than 550,000 customers, in excess of 270 communities and make a difference in the lives of countless people.

We are very proud of the model we have developed and we're very thankful for the opportunity to partner with communities to help build their balance sheets.

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 2011

Your Directors submit the financial statements 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:

Adrian Howard Nelson

Chairman

Age: 61

Consultant

A senior marketing and sales career with major corporate Dulux Paints and Tattersall's has given Adrian a wide experience in all aspects of business. Adrian is a Graduate of the Australian Institute of Company Directors and held several Board positions with subsidiary Companies of Tattersall's. Since 2008 Adrian has been a shareholder and Executive Director of Future Energy Pty Ltd, a business which develops renewable energy generation facilities. Adrian has lived in Clifton Hill for eight years, is a founding Director of Clifroy Ltd, and has been Chairman since November 2008.

Chair: Finance & Audit, Member: HR & Governance, Business Development.

Interests in shares: 15,001

Michelle Kellie Burns

Secretary

Age: 40

Consultant

Michelle is a Clifton Hill resident. Michelle has over fifteen years professional experience in program management, project management, business analysis and software engineering in the telecommunications, financial services and environmental industries. A business and IT professional, Michelle brings valuable skills, knowledge and experience to the **Community Bank**[®] in areas such as project management, event management, business analysis, business case development and cost benefit analysis. Michelle holds a Master of Business Administration degree from Melbourne Business School, a Bachelor of Electrical Engineering (Communications) from University of Melbourne, and has a PRINCE2 Project Management Practitioner qualification.

Secretary, Chair: Business Development, Member: Strategic Plan Working Group.

Interests in shares: 8,501

Directors' report continued

Directors (continued)

Jenny Maree Farrar

Deputy Chairman

Age: 38

Industrial Organiser

Jenny served as a Councillor at Yarra City for 6.5 years and served as the Mayor, Chair of Finance and Governance and Planning and Community Development. She was an active member of the Steering Committee of the **Community Bank**[®] branch since its inception. Jenny possesses a wide range of skills and experience in marketing, community planning and campaigning, and has developed positive and productive relationships with individuals and community groups in the area. Jenny has a strong sense of social justice and commitment to her local community. She is an Industrial Organizer with the Media, Entertainment and Arts Alliance. Jenny has a degree in Communications and Social Sciences from Monash University and is further developing her skills by undertaking a Masters in Regional and Community Development at Monash University. Jenny is also a member of the Council of Australasian Tribunals and currently presides on the Councillor Conflict Panel (CCP) administered by the Municipal Association of Victoria. Jenny's interests include environmental sustainability, social justice, family, cooking and she is a member of the North Melbourne Football Club.

Deputy Chairman, Member: HR & Governance, Strategic Plan Working Group.

Interests in shares: 2,001

Jennifer Anne Gawne

Director

Age: 57

Retired

Jennifer has been active in the Clifton Hill/North Fitzroy **Community Bank**[®] since the Steering Committee phase, and has enjoyed the opportunities to become more involved with community groups and the amazing people who devote themselves to making our local area such an active and interesting place to live. With a degree from Monash University and postgraduate diploma from RMIT University, Jennifer has decades of experience in information architecture, management and discovery, web content and metadata, as well as delivering training in these fields in Australia, New Zealand and Thailand. Jennifer has also completed training as a human rights facilitator with the Victorian Equal Opportunity & Human Rights Commission and is a member of Collingwood Rotary.

Member: Sponsorship.

Interests in shares: 1,001

Greg Randall Tinkler

Director

Age: 55

Business Owner & Consultant

Greg is a consulting head for Mahindra Satyam, and has consulted to numerous large corporations both in Australia and overseas. Greg is also a Fellow of the Australian Institute of Company Directors, the Vice Chairman of Encompass Australia, and a Non-Executive Director on a number of small business Boards.

Chair: HR & Governance. Member: Finance & Audit.

Interests in shares: 10,000

Directors' report continued

Directors (continued)

Yann Burden

Director (Appointed 17 August 2010)

Age: 34

Business Owner

Yann is a Clifton Hill resident and runs an energy efficiency company. With over ten years experience in management consulting and business start-ups in Australia and Europe. Yann brings his experience in the areas of business planning, project management and sustainability to the **Community Bank**[®]. Yann holds a bachelor degree from the University of Melbourne.

Chair: Sponsorship, Member: Business Development.

Interests in shares: Nil

Aisling Mary Callaghan

Director (Appointed 25 May 2011)

Age: 30

Management Consultant

Aisling has worked as a management consultant in Ireland and Australia for the past 6 years, primarily in banking. She brings business and data analysis, finance, and project management skills to the **Community Bank**[®]. A Clifton Hill resident, she spends her Saturday afternoons coaching 5 - 9 year olds in the Yarra Jets youth program, and plays on the Yarra Jets senior womens state team. Aisling has a B.Sc in Financial and Actuarial Mathematics from Dublin City University, an Advanced Diploma in Management Accounting from the Chartered Institute of Management Accountants, and an M.B.A. in International Business from Northern Kentucky University.

Member: Business Development, Strategic Plan Working Group.

Interests in shares: Nil

Clare Elizabeth Carmody

Director (Appointed 20 June 2011)

Age: 27

Community Arts Manager

Clare Carmody is a Clifton Hill resident. She has eight years experience in the non profit and local government sectors running arts programs with diverse community groups. Clare is the Executive Producer of St Martins Youth Centre, a not for profit organisation. She is a member of the Yarra Arts Advisory Committee (YAARTS). Clare joined the Board after partnering with the Heidelberg/East Ivanhoe **Community Bank**[®] on community festivals and artists in school projects. Clare brings skills in community/government/private partnerships, marketing, mentoring and strategic planning for small non profits. She has a Bachelor of Creative Industries (Hons) and is studying for a Masters of Business Administration at Melbourne Business School. A lifelong volunteer Clare is a passionate supporter of the arts and the Melbourne Rebels!

Interests in shares: Nil

Directors' report continued

Directors (continued)

Karen Patricia Dynon

Director (Resigned 26 August 2010)

Age: 49

Senior Financial Adviser

Karen is a Clifton Hill resident and is a Senior Financial Adviser with Bell Potter Securities Ltd where she is responsible for the strategy, investment and ongoing management of client portfolios. She has worked in the financial markets for more than 20 years. Her education and professional accreditation include; Bachelor of Business, RMIT (graduated 1986), Securities and Derivatives Industry Association, PS146, Derivatives Level 1. Karen has been an Advisory Board Member of the Foundation for Sustainable Economic Development, Melbourne University (2003 – 2007) and on the Board of Good Shepherd Youth and Family Service from 2001 – 2007. Karen was the Chairman of Clifroy Ltd from Aug 2006 - Nov 2008.

Member: Finance & Audit, Sponsorship.

Interests in shares: 13,501

Manuel Tsirmiris

Director (Resigned 16 November 2010)

Age: 41

Accountant

Manuel is a Certified Practising Accountant and Registered Tax Agent. For the past 9 years he has been a Director of Accountancy Group, located on Queens Parade, Clifton Hill. Manuel's major accounting practices are tax, business development and superannuation for clients throughout Australia and Asia with a particular focus on Small to Medium Enterprises (SMEs). Manuel has a Bachelor of Business degree from Swinburne University and has acted as Accountant and Auditor to various community, social and religious organisations, and sporting groups in the local area and beyond. He has also developed an extensive network of local business contacts, and acts for a number of businesses within the catchment area. Manuel is married and is the proud father of identical twin daughters. His other interests include golf, AFL (Hawthorn FC) and travelling. Treasurer, Chair: Finance & Audit.

Interests in shares: 5,001

John Alexander Gray Price

Director (Resigned 7 April 2011)

Age: 68

Semi-Retired

John has a commerce degree from the University of Melbourne, and has held General Management and consultancy positions in the education and health services sectors, which included interests in sports medicine and the manufacturing of medical appliances. John is now semi-retired.

Chair: Business Development.

Interests in shares: 500

Directors' report continued

Directors (continued)

Rosemary Ann Marks

Director (Appointed 16 September 2010, Resigned 4 May 2011)

Age: 52

Social Policy & Planning Consultant

Rosemary has been a resident of Clifton Hill for 14 years and joined the board in 2010. As a Social Policy and Planning Consultant with significant experience facilitating the planning, coordination and development of community services in response to identified community needs, Rosemary joined the Clifroy Limited Board to contribute in a range of governance and sponsorship roles. However, various personal and professional challenges resulted in a decision to resign from the Board prematurely in May 2011.

Member: Sponsorship.

Interests in shares: Nil

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

Committee positions are as at 30 June 2011, or at the time of resignation from the Board.

Company Secretary

The Company secretary is Michelle Kellie Burns. Michelle was appointed to the position of secretary on 3 June 2005. Michelle has extensive business and management experience.

Principal Activities

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

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

Operating Results

Operations have continued to perform in line with expectations. The profit of the Company for the financial year after provision for income tax was:

| | Year ended 30 June 2011 | Year ended 30 June 2010 |
|--|------------------------------------|------------------------------------|
| | \$ | \$ |
| | 138,312 | 111,603 |

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

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

Directors' report continued

Likely developments

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

Environmental regulation

The Company is not subject to any significant environmental regulation.

Directors' benefits

No Director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the Company, controlled entity or related body corporate with a Director, a firm which a Director is a member or an entity in which a Director has a substantial financial interest except as disclosed in note 20 to the financial statements. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the Company's accounts, or the fixed salary of a full-time employee of the Company, controlled entity or related body corporate.

Dividends

No Dividends were declared or paid during the previous year.

At the Company's July Board meeting a motion was passed to pay an 8 cent per share unfranked dividend. The Company's first dividend record date is 30 September 2011 and payment will be made on 31 October 2011.

Indemnification and insurance of Directors and Officers

The Company has indemnified all Directors and the Branch Manager in respect of liabilities to other persons (other than the Company or related body corporate) that may arise from their position as Directors or Manager of the Company except where the liability arises out of conduct involving the lack of good faith.

Disclosure of the nature of the liability and the amount of the premium is prohibited by the confidentiality clause of the contract of insurance. The Company has not provided any insurance for an auditor of the Company or a related body corporate.

Directors' report continued

Directors meetings

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

| | Board Meetings Attended | | Committee Meetings Attended | | | | | | | |
|--|-------------------------|----|-----------------------------|---|---------|---|-------------|---|----------------------|---|
| | | | Governance & HR | | Finance | | Sponsorship | | Business Development | |
| | A | B | A | B | A | B | A | B | A | B |
| Adrian Howard Nelson | 10 | 10 | 4 | 4 | 8 | 8 | - | - | 9 | 9 |
| Michelle Kellie Burns | 10 | 8 | - | - | - | - | - | - | 10 | 8 |
| Jenny Maree Farrar * | 10 | 5 | 4 | 4 | - | - | - | - | - | - |
| Jennifer Anne Gawne ** | 10 | 6 | - | - | 5 | 4 | 10 | 9 | - | - |
| Greg Randall Tinkler | 10 | 9 | 4 | 4 | 8 | 7 | 4 | 4 | - | - |
| Yann Burden (Appointed 17 August 2010) | 9 | 9 | - | - | - | - | 8 | 7 | 6 | 3 |
| Aisling Mary Callaghan (Appointed 25 May 2011) | 1 | 1 | - | - | - | - | - | - | 2 | 2 |
| Clare Elizabeth Carmody (Appointed 20 June 2011) | - | - | - | - | - | - | - | - | - | - |
| Karen Patricia Dynon (Resigned 26 August 2010) | 2 | 2 | - | - | 3 | 3 | 2 | 1 | - | - |
| Manuel Tsirmiris (Resigned 16 November 2010) | 4 | 3 | - | - | 5 | 4 | - | - | - | - |
| John Alexander Gray Price (Resigned 7 April 2011) | 8 | 7 | - | - | - | - | - | - | 7 | 4 |
| Rosemary Marks (Appointed 16 September, Resigned 4 May 2011) | 2 | 2 | - | - | - | - | 3 | 1 | - | - |

A - Number of meetings held during the time the director held office or was a member of the committee during the year

B - Number of meetings attended

* - Leave of absence for 3 months

** - Leave of absence for 2 months

Non audit services

The Company may decide to employ the auditor on assignments additional to their statutory duties where the auditor's expertise and experience with the Company are important. Details of the amounts paid or payable to the auditor (Andrew Frewin & Stewart) for audit and non audit services provided during the year are set out in the notes to the accounts.

The Board of Directors has considered the position, in accordance with the advice received from the HR & Governance committee and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are satisfied that the provision of non-audit services by the auditor, as set out in the notes did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

Directors' report continued

Non audit services (continued)

- all non-audit services have been reviewed by the audit committee to ensure they do not impact on the impartiality and objectivity of the auditor;
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

Remuneration Report

(a) Remuneration of Directors

All Directors of the Company provide their time on a voluntary basis, therefore no remuneration guidelines have been prepared.

(b) Remuneration of Branch Managers

The Company aims to provide market competitive compensation by offering a package of fixed pay and benefits. The Branch Manager is seconded from Bendigo and Adelaide Bank Limited and all Branch staff are employed under a Certified Employment Agreement. As such, the Company is guided by Bendigo and Adelaide Bank Limited in determining the remuneration payable.

All staff have the opportunity to participate in a bonus scheme operated by Bendigo and Adelaide Bank Limited, where:

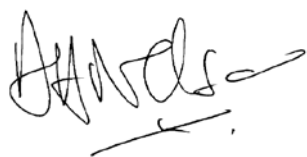
- a) the amount of any bonus payment is tied to the outcome of annual performance reviews, such reviews measuring performance against defined objectives noted in the position description, and
- b) the amount of any bonus payment is not directly tied to the Company's performance, and
- c) the annual review process has been provided by Bendigo and Adelaide Bank, and
- d) the annual review process does not involve a comparison with factors external to the Company.

The Branch Manager, Rod May is on secondment from Bendigo and Adelaide Bank and paid a base salary, which is \$76,966 (2010: \$77,550), in addition he receives a bonus if the Company exceeds the budget estimates established by the Board. During the year a bonus was paid of \$4,587.00 (2010: \$Nil), plus a car allowance of \$9,423 (2010: \$Nil), plus employer sponsored superannuation of \$8,199.67 (2010: \$12,306).

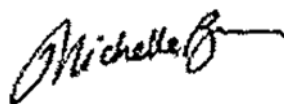
Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 16.

Signed in accordance with a resolution of the Board of Directors at Clifton Hill, Victoria on 7 September 2011.



Adrian Howard Nelson, Chairman



Michelle Kellie Burns, Company Secretary

Auditor's independence declaration



Lead Auditor's Independence Declaration under section 307C of the Corporations Act 2001 to the directors of Clifroy Limited

I declare, that to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

- no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'Graeme Stewart'.

GRAEME STEWART
ANDREW FREWIN & STEWART
61-65 Bull Street, Bendigo, 3550

7th September 2011

Liability limited by a scheme approved under Professional Standards Legislation. ABN: 51 061 795 337.

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TAXATION • AUDIT • BUSINESS SERVICES • FINANCIAL PLANNING

Financial statements

Statement of Comprehensive Income for the Year Ended 30 June 2011

| | Note | 2011 \$ | 2010 \$ |
|--|------|----------------|----------------|
| Revenues from ordinary activities | 4 | 1,006,583 | 836,063 |
| Employee benefits expense | | (389,793) | (345,527) |
| Charitable donations, sponsorship, advertising and promotion | | (162,105) | (102,175) |
| Occupancy and associated costs | | (99,779) | (96,310) |
| Systems costs | | (21,167) | (22,325) |
| Depreciation and amortisation expense | 5 | (22,776) | (16,770) |
| Finance costs | 5 | (1,162) | (1,463) |
| General administration expenses | | (108,556) | (95,636) |
| Profit before income tax expense | | 201,245 | 155,857 |
| Income tax expense | 6 | (62,933) | (44,254) |
| Profit after income tax expense | | 138,312 | 111,603 |
| Total comprehensive income for the year | | 138,312 | 111,603 |
| Earnings per share (cents per share) | | c | c |
| - basic for profit for the year | 23 | 15.95 | 12.87 |

The accompanying notes form part of these financial statements.

Financial statements continued

Balance Sheet as at 30 June 2011

| | Note | 2011 \$ | 2010 \$ |
|--|------|----------------|----------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 7 | 461,796 | 370,727 |
| Trade and other receivables | 8 | 73,131 | 66,543 |
| Total Current Assets | | 534,927 | 437,270 |
| Non-Current Assets | | | |
| Property, plant and equipment | 9 | 226,229 | 239,688 |
| Intangible assets | 10 | 63,638 | 2,296 |
| Deferred tax assets | 11 | 6,392 | 66,392 |
| Total Non-Current Assets | | 296,259 | 308,376 |
| Total Assets | | 831,186 | 745,646 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Current tax liabilities | 11 | 2,933 | - |
| Trade and other payables | 12 | 29,722 | 45,090 |
| Borrowings | 13 | 4,968 | 4,968 |
| Provisions | 14 | 16,195 | 12,856 |
| Total Current Liabilities | | 53,818 | 62,914 |
| Non-Current Liabilities | | | |
| Borrowings | 13 | 8,253 | 11,939 |
| Provisions | 14 | 7,868 | 4,508 |
| Total Non-Current Liabilities | | 16,121 | 16,447 |
| Total Liabilities | | 69,939 | 79,361 |
| Net Assets | | 761,247 | 666,285 |
| Equity | | | |
| Issued capital | 15 | 753,928 | 797,278 |
| Retained Earnings/(Accumulated losses) | 16 | 7,319 | (130,993) |
| Total Equity | | 761,247 | 666,285 |

The accompanying notes form part of these financial statements.

Financial statements continued

Statement of Changes in Equity for the Year Ended 30 June 2011

| | Issued Capital \$ | Retained Earnings \$ | Total Equity \$ |
|--|-------------------------|----------------------------|-----------------------|
| Balance at 1 July 2009 | 797,278 | (242,596) | 554,682 |
| Total comprehensive income for the year | - | 111,603 | 111,603 |
| Transactions with owners in their capacity as owners: | | | |
| Shares issued during period | - | - | - |
| Costs of issuing shares | - | - | - |
| Dividends provided for or paid | - | - | - |
| Balance at 30 June 2010 | 797,278 | (130,993) | 666,285 |
| Balance at 1 July 2010 | 797,278 | (130,993) | 666,285 |
| Total comprehensive income for the year | - | 138,312 | 138,312 |
| Transactions with owners in their capacity as owners: | | | |
| Shares issued during period | - | - | - |
| Costs of issuing shares | - | - | - |
| Return on capital | (43,350) | - | (43,350) |
| Balance at 30 June 2011 | 753,928 | 7,319 | 761,247 |

The accompanying notes form part of these financial statements.

Financial statements continued

Statement of Cashflows for the Year Ended 30 June 2011

| | Note | 2011 \$ | 2010 \$ |
|---|-------------|-----------------|-----------------|
| Cash Flows From Operating Activities | | | |
| Receipts from customers | | 1,002,412 | 897,302 |
| Payments to suppliers and employees | | (798,905) | (727,357) |
| Interest received | | 6,418 | 5,501 |
| Interest paid | | (1,162) | (1,463) |
| Net cash provided by operating activities | 17 | 208,763 | 173,983 |
| Cash Flows From Investing Activities | | | |
| Payments for property, plant and equipment | | (1,235) | (21,147) |
| Payments for intangible assets | | (69,423) | - |
| Net cash used in investing activities | | (70,658) | (21,147) |
| Cash Flows From Financing Activities | | | |
| Payments of return of capital | | (43,350) | - |
| Proceeds from borrowings | | - | 20,000 |
| Repayment of borrowings | | (3,686) | (3,093) |
| Net cash provided by/(used in) financing activities | | (47,036) | 16,907 |
| Net increase in cash held | | 91,069 | 169,743 |
| Cash and cash equivalents at the beginning of the financial year | | 370,727 | 200,984 |
| Cash and cash equivalents at the end of the financial year | 7(a) | 461,796 | 370,727 |

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2011

Note 1. Summary of Significant Accounting Policies

a) Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standard Boards and the Corporations Act 2001.

Compliance with IFRS

These financial statements and notes comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. These areas involving a higher degree of judgement or complexities, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Financial statement presentation

The Company has applied revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The Company has elected to present all items of income and expense recognised in the period in a single statement of comprehensive income.

Historical cost convention

The financial statements have been prepared under the historical cost convention on an accruals basis as modified by the revaluation of financial assets and liabilities at fair value through profit or loss and where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Comparative figures

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

Adoption of new and revised Accounting Standards

During the current year the entity has adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of the Company.

Notes to the financial statements continued

Note 1. Summary of Significant Accounting Policies (continued)

a) Basis of Preparation (continued)

Adoption of new and revised Accounting Standards (continued)

- AASB 101 Presentation of Financial Statements

In September 2007 the Australian Accounting Standards Board revised AASB 101, and as a result there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Company's financial statements.

- Disclosure impact

Terminology changes – The revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity – The revised AASB 101 requires all changes in equity arising from transactions with owners in their capacity as owners to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income – The revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Company's financial statements contain a single statement of comprehensive income.

Other comprehensive income – The revised version of AASB 101 introduces the concept of "other comprehensive income" which comprises of income and expense that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

New Accounting Standards for application in future periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods, as follows:

- AASB 9: Financial Instruments and AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013)
- AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011)

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Company has determined these amendments will have no impact on the preparation of the financial statements and therefore they have not been applied.

Notes to the financial statements continued

Note 1. Summary of Significant Accounting Policies (continued)

a) Basis of Preparation (continued)

Economic dependency - Bendigo and Adelaide Bank Limited

The Company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank**[®] branch at Clifton Hill/North Fitzroy, Victoria.

The branch operates as a franchise of Bendigo and Adelaide Bank Limited, using the name “Bendigo Bank” and the logo and system of operations of Bendigo and Adelaide Bank Limited. The Company manages the **Community Bank**[®] branch on behalf of Bendigo and Adelaide Bank Limited, however all transactions with customers conducted through the **Community Bank**[®] branches are effectively conducted between the customers and Bendigo and Adelaide Bank Limited.

All deposits are made with Bendigo and Adelaide Bank Limited, and all personal and investment products are products of Bendigo and Adelaide Bank Limited, with the Company facilitating the provision of those products. All loans, leases or hire purchase transactions, issues of new credit or debit cards, temporary or bridging finance and any other transaction that involves creating a new debt, or increasing or changing the terms of an existing debt owed to Bendigo and Adelaide Bank Limited, must be approved by Bendigo and Adelaide Bank Limited. All credit transactions are made with Bendigo and Adelaide Bank Limited, and all credit products are products of Bendigo and Adelaide Bank Limited.

Bendigo and Adelaide Bank Limited provides significant assistance in establishing and maintaining the **Community Bank**[®] branch franchise operations. It also continues to provide ongoing management and operational support, and other assistance and guidance in relation to all aspects of the franchise operation, including advice in relation to:

- advice and assistance in relation to the design, layout and fit out of the **Community Bank**[®] branch;
- training for the branch manager and other employees in banking, management systems and interface protocol;
- methods and procedures for the sale of products and provision of services;
- security and cash logistic controls;
- calculation of Company revenue and payment of many operating and administrative expenses
- the formulation and implementation of advertising and promotional programs; and
- sales techniques and proper customer relations.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

b) Revenue

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefit will flow to the Company and any specific criteria have been met. Interest and fee revenue is recognised when earned. The gain or loss on disposal of property, plant and equipment is recognised on a net basis and is classified as income rather than revenue. All revenue is stated net of the amount of Goods and Services Tax (GST).

Notes to the financial statements continued

Note 1. Summary of Significant Accounting Policies (continued)

b) Revenue (continued)

Revenue calculation

The franchise agreement with Bendigo and Adelaide Bank Limited provides for three types of revenue earned by the Company. First, the Company is entitled to 50% of the monthly gross margin earned by Bendigo and Adelaide Bank Limited on products and services provided through the Company that are regarded as “day to day” banking business (ie ‘margin business’). This arrangement also means that if the gross margin reflects a loss (that is, the gross margin is a negative amount), the Company effectively incurs, and must bear, 50% of that loss.

The second source of revenue is commission paid by Bendigo and Adelaide Bank Limited on the other products and services provided through the Company (ie ‘commission business’). The commission is currently payable on various specified products and services, including insurance, financial planning, common fund, Sandhurst Select, superannuation, commercial loan referrals, products referred by Rural Bank, leasing referrals, fixed loans and certain term deposits (>90 days). The amount of commission payable can be varied in accordance with the Franchise Agreement (which, in some cases, permits commissions to be varied at the discretion of Bendigo and Adelaide Bank Limited). This discretion has been exercised on several occasions previously. For example in February 2011 Bendigo and Adelaide Bank Limited reduced commissions on two core banking products to ensure a more even distribution of income between Bendigo and Adelaide Bank Limited and its **Community Bank**[®] partners. The revenue share model is subject to regular review to ensure that the interests of Bendigo and Adelaide Bank Limited and **Community Bank**[®] Companies remain balanced.

The third source of revenue is a proportion of the fees and charges (ie, what are commonly referred to as ‘bank fees and charges’) charged to customers. This proportion, determined by Bendigo and Adelaide Bank Limited, may vary between products and services and may be amended by Bendigo and Adelaide Bank Limited from time to time.

c) Income Tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method on temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Notes to the financial statements continued

Note 1. Summary of Significant Accounting Policies (continued)

c) Income Tax (continued)

Deferred tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax and when the balances relate to taxes levied by the same taxation authority and the Company entity intends to settle its tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

d) Employee Entitlements

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

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

e) Cash and Cash Equivalents

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. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

f) Trade Receivables and Payables

Receivables are carried at their amounts due. The collectability of debts is assessed at balance date and specific provision is made for any doubtful accounts. 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.

g) Property, Plant and Equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Notes to the financial statements continued

Note 1. Summary of Significant Accounting Policies (continued)

g) Property, Plant and Equipment (continued)

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated at the rate equivalent to the available building allowance using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

- leasehold improvements 40 years
- plant and equipment 2.5 - 40 years
- furniture and fittings 4 - 40 years

h) Intangibles

The franchise fee paid to Bendigo and Adelaide Bank Limited has been recorded at cost and is amortised on a straight line basis over the life of the franchise agreement.

The renewal processing fee paid to Bendigo and Adelaide Bank Limited when renewing the franchise agreement has also been recorded at cost and is amortised on a straight line basis over the life of the franchise agreement.

i) Payment Terms

Receivables and payables are non interest bearing and generally have payment terms of between 30 and 90 days.

j) Borrowings

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

k) Financial Instruments

Recognition and initial measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value plus transaction costs. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset.

Notes to the financial statements continued

Note 1. Summary of Significant Accounting Policies (continued)

k) Financial Instruments (continued)

Classification and subsequent measurement

(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 using the effective interest rate method.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the entity's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

(iii) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Impairment

At each reporting date, the entity assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the statement of comprehensive income.

l) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership are transferred to the Company are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

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) Contributed Equity

Ordinary shares are 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) Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

p) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet. Cash flows are included in the 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 taxation authority are classified as operating cash flows.

Note 2. Financial Risk Management

The Company's activities expose it to a limited variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the entity. The entity does not use derivative instruments.

Risk management is carried out directly by the Board of Directors.

(i) Market risk

The Company has no exposure to any transactions denominated in a currency other than Australian dollars.

(ii) Price risk

The Company is not exposed to equity securities price risk as it does not hold investments for sale or at fair value. The Company is not exposed to commodity price risk.

(iii) Credit risk

The Company has no significant concentrations of credit risk. It has policies in place to ensure that customers have an appropriate credit history. The Company's franchise agreement limits the Company's credit exposure to one financial institution, being Bendigo and Adelaide Bank Limited.

Notes to the financial statements continued

Note 2. Financial Risk Management (continued)

(iv) Liquidity risk

Prudent liquidity management implies maintaining sufficient cash and marketable securities and the availability of funding from credit facilities. The Company believes that its sound relationship with Bendigo and Adelaide Bank Limited mitigates this risk significantly.

(v) Cash flow and fair value interest rate risk

Interest-bearing assets are held with Bendigo and Adelaide Bank Limited and subject to movements in market interest. Interest-rate risk could also arise from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest-rate risk. The Company believes that its sound relationship with Bendigo and Adelaide Bank Limited mitigates this risk significantly.

(vi) Capital management

The Board's policy is to maintain a strong capital base so as to sustain future development of the Company. The Board of Directors monitor the return on capital and the level of dividends to shareholders. Capital is represented by total equity as recorded in the balance sheet.

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

- (i) the distribution limit is the greater of:
 - (a) 20% of the profit or funds of the franchisee otherwise available for distribution to shareholders in that 12 month period; and
 - (b) subject to the availability of distributable profits, the relevant rate of return multiplied by the average level of share capital of the franchisee over that 12 month period; and
- (ii) the relevant rate of return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period plus 5%.

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

Note 3. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Notes to the financial statements continued

Note 3. Critical Accounting Estimates and Judgements (continued)

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Taxation

Judgement is required in assessing whether deferred tax assets and certain tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation.

These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in corresponding credit or charge to the statement of comprehensive income.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience and the condition of the asset is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired branch/agency at the date of acquisition. Goodwill on acquisition is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

The calculations require the use of assumptions.

Impairment of assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets that have an indefinite useful life to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Notes to the financial statements continued

Note 3. Critical Accounting Estimates and Judgements (continued)

Impairment of assets (continued)

Recoverable amount is the higher 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

| | 2011 | 2010 |
|--|------------------|----------------|
| | \$ | \$ |
| Note 4. Revenue from Ordinary Activities | | |
| Operating activities: | | |
| - services commissions | 988,046 | 828,849 |
| - other revenue | 9,752 | 1,645 |
| Total revenue from operating activities | 997,798 | 830,494 |
| Non-operating activities: | | |
| - interest received | 8,785 | 5,569 |
| Total revenue from non-operating activities | 8,785 | 5,569 |
| Total revenues from ordinary activities | 1,006,583 | 836,063 |

Note 5. Expenses

Depreciation of non-current assets:

| | | |
|--------------------------|-------|--------|
| - computers and software | 718 | 1,124 |
| - plant and equipment | 4,178 | 3,329 |
| - leasehold improvements | 9,797 | 10,317 |

Notes to the financial statements continued

| | Note | 2011 \$ | 2010 \$ |
|-------------------------------------|------|---------------|---------------|
| Note 5. Expenses (continued) | | | |
| Amortisation of non-current assets: | | | |
| - franchise agreement | | 2,130 | 2,000 |
| - formation costs | | 1,130 | - |
| - franchise renewal fee | | 4,823 | - |
| | | 22,776 | 16,770 |
| Finance costs: | | | |
| - interest paid | | 1,162 | 1,463 |
| Bad debts | | 5,206 | 437 |

Note 6. Income Tax Expense

The components of tax expense comprise:

| | | | |
|--|--|---------------|---------------|
| - Current tax | | 2,933 | - |
| - Future income tax benefit attributed to losses | | - | - |
| - Movement in deferred tax | | (1,300) | (486) |
| - Recoup of prior year tax loss | | 61,300 | 44,740 |
| | | 62,933 | 44,254 |

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

| | | | |
|---|----|---------------|---------------|
| Operating profit | | 201,245 | 155,857 |
| Prima facie tax on profit from ordinary activities at 30% | | 60,374 | 46,758 |
| Add tax effect of: | | | |
| - investment deduction | | - | (1,472) |
| - non-deductible expenses | | 2,424 | 620 |
| - timing difference expenses | | 1,299 | 485 |
| - other deductible expenses | | 136 | (1,651) |
| | | 64,233 | 44,740 |
| Movement in deferred tax | 11 | (1,300) | (486) |
| | | 62,933 | 44,254 |

Notes to the financial statements continued

| | 2011 \$ | 2010 \$ |
|--|------------|------------|
|--|------------|------------|

Note 7. Cash and Cash Equivalents

| | | |
|--------------------------|----------------|----------------|
| Cash at bank and on hand | 267,366 | 257,114 |
| Term deposits | 194,430 | 113,613 |
| | 461,796 | 370,727 |

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cashflows as follows:

Note 7.(a) Reconciliation of cash

| | | |
|--------------------------|----------------|----------------|
| Cash at bank and on hand | 267,366 | 257,114 |
| Term deposits | 194,430 | 113,613 |
| | 461,796 | 370,727 |

Note 8. Trade and Other Receivables

| | | |
|--------------------------------|---------------|---------------|
| Trade receivables | 65,969 | 59,227 |
| Other receivables and accruals | 2,757 | 390 |
| Prepayments | 4,405 | 6,926 |
| | 73,131 | 66,543 |

Note 9. Property, Plant and Equipment

Plant and equipment

| | | |
|-------------------------------|---------------|---------------|
| At cost | 62,788 | 61,553 |
| Less accumulated depreciation | (19,967) | (15,789) |
| | 42,821 | 45,764 |

Computer & Software

| | | |
|-------------------------------|--------------|--------------|
| At cost | 15,000 | 15,000 |
| Less accumulated depreciation | (13,721) | (13,002) |
| | 1,279 | 1,998 |

Leasehold improvements

| | | |
|-------------------------------|----------------|----------------|
| At cost | 240,440 | 240,440 |
| Less accumulated depreciation | (58,311) | (48,514) |
| | 182,129 | 191,926 |

| | | |
|----------------------------------|----------------|----------------|
| Total written down amount | 226,229 | 239,688 |
|----------------------------------|----------------|----------------|

Notes to the financial statements continued

| | 2011 \$ | 2010 \$ |
|---|----------------|----------------|
| Note 9. Property, Plant and Equipment (continued) | | |
| Movements in carrying amounts: | | |
| Plant and equipment | | |
| Carrying amount at beginning | 45,764 | 39,118 |
| Additions | 1,235 | 9,975 |
| Disposals | - | - |
| Less: depreciation expense | (4,178) | (3,329) |
| Carrying amount at end | 42,821 | 45,764 |
| Computer & Software | | |
| Carrying amount at beginning | 1,998 | 3,120 |
| Additions | - | - |
| Disposals | - | - |
| Less: depreciation expense | (719) | (1,122) |
| Carrying amount at end | 1,279 | 1,998 |
| Leasehold improvements | | |
| Carrying amount at beginning | 191,926 | 191,072 |
| Additions | - | 11,172 |
| Disposals | - | - |
| Less: depreciation expense | (9,797) | (10,318) |
| Carrying amount at end | 182,129 | 191,926 |
| Total written down amount | 226,229 | 239,688 |

Note 10. Intangible Assets

Formation costs

| | | |
|--------------------------------|---------|--------------|
| At Cost | 1,130 | 1,130 |
| Less: accumulated amortisation | (1,130) | - |
| | - | 1,130 |

Franchise fee

| | | |
|--------------------------------|---------------|--------------|
| At cost | 21,570 | 10,000 |
| Less: accumulated amortisation | (10,964) | (8,834) |
| | 10,606 | 1,166 |

Notes to the financial statements continued

| | 2011 \$ | 2010 \$ |
|--|---------------|--------------|
| Note 10. Intangible Assets (continued) | | |
| Renewal processing fee | | |
| At cost | 57,853 | - |
| Less: accumulated amortisation | (4,821) | - |
| | 53,032 | - |
| Total written down amount | 63,638 | 2,296 |

Note 11. Tax

| | | |
|--|----------------|---------------|
| Current: | | |
| Income tax payable | 2,933 | - |
| Non-Current: | | |
| Deferred tax assets | | |
| - accruals | - | - |
| - employee provisions | 7,219 | 5,209 |
| - tax losses carried forward | - | 61,299 |
| | 7,219 | 66,508 |
| Deferred tax liability | | |
| - accruals | 827 | 116 |
| - deductible prepayments | - | - |
| | 827 | 116 |
| Net deferred tax asset | 6,392 | 66,392 |
| Movement in deferred tax charged to statement of comprehensive income | (1,300) | (486) |

Note 12. Trade and Other Payables

| | | |
|------------------------------|---------------|---------------|
| Trade creditors | 24,050 | 31,466 |
| Other creditors and accruals | 5,672 | 13,624 |
| | 29,722 | 45,090 |

Notes to the financial statements continued

| | 2011 \$ | 2010 \$ |
|----------------------------|--------------|---------------|
| Note 13. Borrowings | | |
| Current: | | |
| Bank loans | 4,968 | 4,968 |
| Non-Current: | | |
| Bank loans | 8,253 | 11,939 |

Bank loan is repayable monthly with the final instalment due in July 2014. Interest is recognised at a rate of 7.74%. The loans are secured by a fixed and floating charge over the Company's assets.

Note 14. Provisions

| | | |
|---|---------------|---------------|
| Current: | | |
| Provision for annual leave | 16,195 | 12,856 |
| Non-Current: | | |
| Provision for long service leave | 7,868 | 4,508 |
| Number of employees at year end | 4 | 3 |

Note 15. Contributed Equity

| | | |
|---|----------------|----------------|
| 867,013 Ordinary shares (2009: 867,013) | 867,013 | 867,013 |
| Less: equity raising expenses | (26,384) | (26,384) |
| Less: return of capital (2008) | (43,351) | (43,351) |
| Less: return of capital (2010) | (43,350) | - |
| | 753,928 | 797,278 |

Rights attached to shares

(a) Voting rights

Subject to some limited exceptions, each member has the right to vote at a general meeting.

On a show of hands or a poll, each member attending the meeting (whether they are attending the meeting in person or by attorney, corporate representative or proxy) has one vote, regardless of the number of shares held. However, where a person attends a meeting in person and is entitled to vote in more than one capacity (for example, the person is a member and has also been appointed as proxy for another member) that person may only exercise one vote on a show of hands. On a poll, that person may exercise one vote as a member and one vote for each other member that person represents as duly appointed attorney, corporate representative or proxy.

Notes to the financial statements continued

Note 15. Contributed Equity (continued)

Rights attached to shares (continued)

The purpose of giving each member only one vote, regardless of the number of shares held, is to reflect the nature of the Company as a community based Company, by providing that all members of the community who have contributed to the establishment and ongoing operation of the **Community Bank®** have the same ability to influence the operation of the Company.

(b) Dividends

Generally, dividends are payable to members in proportion to the amount of the share capital paid up on the shares held by them, subject to any special rights and restrictions for the time being attaching to shares. The franchise agreement with Bendigo and Adelaide Bank Limited contains a limit on the level of profits or funds that may be distributed to shareholders. There is also a restriction on the payment of dividends to certain shareholders if they have a prohibited shareholding interest (see below).

(c) Transfer

Generally, ordinary shares are freely transferable. However, the Directors have a discretion to refuse to register a transfer of shares.

Subject to the foregoing, shareholders may transfer shares by a proper transfer effected in accordance with the Company's constitution and the Corporations Act.

Prohibited shareholding interest

A person must not have a prohibited shareholding interest in the Company.

In summary, a person has a prohibited shareholding interest if any of the following applies:

- They control or own 10% or more of the shares in the Company (the "10% limit").
- In the opinion of the Board they do not have a close connection to the community or communities in which the Company predominantly carries on business (the "close connection test").
- Where the person is a shareholder, after the transfer of shares in the Company to that person the number of shareholders in the Company is (or would be) lower than the base number (the "base number test"). The base number is 276. As at the date of this report, the Company had 303 shareholders.

As with voting rights, the purpose of this prohibited shareholding provision is to reflect the community-based nature of the Company.

Where a person has a prohibited shareholding interest, the voting and dividend rights attaching to the shares in which the person (and his or her associates) have a prohibited shareholding interest, are suspended.

The Board has the power to request information from a person who has (or is suspected by the Board of having) a legal or beneficial interest in any shares in the Company or any voting power in the Company, for the purpose of determining whether a person has a prohibited shareholding interest. If the Board becomes aware that a member has a prohibited shareholding interest, it must serve a notice requiring the member (or the member's associate) to dispose of the number of shares the Board considers necessary to remedy the breach. If a person fails to comply with such a notice within a specified period (that must be between three and six months), the Board is authorised to sell the specified shares on behalf of that person. The holder will be entitled to the consideration from the sale of the shares, less any expenses incurred by the Board in selling or otherwise dealing with those shares.

Notes to the financial statements continued

Note 15. Contributed Equity (continued)

Prohibited shareholding interest (continued)

The Bendigo Stock Exchange (BSX) has advised that in its view the prohibited shareholding provisions are appropriate and equitable but the 'base number test' is not as a result the base number clause does not operate whilst the Company remains listed on the BSX.

In the constitution, members acknowledge and recognise that the exercise of the powers given to the Board may cause considerable disadvantage to individual members, but that such a result may be necessary to enforce the prohibition.

| | 2011 \$ | 2010 \$ |
|--|--------------|------------------|
| Note 16. Retained Earnings/(Accumulated Losses) | | |
| Balance at the beginning of the financial year | (130,993) | (242,596) |
| Net profit from ordinary activities after income tax | 138,312 | 111,603 |
| Dividends paid or provided for | - | - |
| Balance at the end of the financial year | 7,319 | (130,993) |

Note 17. Statement of Cashflows

Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities

| | | |
|---|----------------|----------------|
| Profit from ordinary activities after income tax | 138,312 | 111,603 |
| Non cash items: | | |
| - depreciation | 14,693 | 14,770 |
| - amortisation | 8,084 | 2,000 |
| Changes in assets and liabilities: | | |
| - (increase)/decrease in receivables | (6,588) | (13,625) |
| - decrease in other assets | 60,000 | 44,254 |
| - increase/(decrease) in payables | (15,368) | 12,721 |
| -increase in provisions | 6,698 | 2,260 |
| -increase in current tax liabilities | 2,932 | - |
| Net cashflows provided by operating activities | 208,763 | 173,983 |

Notes to the financial statements continued

| | 2011 \$ | 2010 \$ |
|---|----------------|---------------|
| Note 18. Leases | | |
| Operating lease commitments | | |
| Non-cancellable operating leases contracted for but not capitalised in the financial statements | | |
| Payable - minimum lease payments | | |
| - not later than 12 months | 80,000 | 31,250 |
| - between 12 months and 5 years | 362,050 | - |
| - greater than 5 years | - | - |
| | 442,050 | 31,250 |

The property lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. The current lease expires in February 2016, with an option for one more term of five years to be exercised.

Note 19. Auditors' Remuneration

Amounts received or due and receivable by the auditor of the Company for:

| | | |
|-----------------------------|---------------|--------------|
| - audit and review services | 4,500 | 4,500 |
| - share registry services | 4,875 | 1,450 |
| - non audit services | 1,300 | 1,883 |
| | 10,675 | 7,833 |

Note 20. Director and Related Party Disclosures

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

Adrian Howard Nelson

Michelle Kellie Burns

Jenny Maree Farrar

Jennifer Anne Gawne

Greg Randall Tinkler

Yann Burden (Appointed 17 August 2010)

Aisling Mary Callaghan (Appointed 25 May 2011)

Clare Elizabeth Carmody (Appointed 20 June 2011)

Karen Patricia Dynon (Resigned 26 August 2010)

Manuel Tsirmiris (Resigned 16 November 2010)

John Alexander Gray Price (Resigned 7 April 2011)

Rosemary Marks (Appointed 16 September 2010, Resigned 4 May 2011)

Notes to the financial statements continued

Note 20. Director and Related Party Disclosures (continued)

Director and Treasurer, Manuel Tsirmiris is a Director of Crelim Pty Ltd which is one of three Companies receiving benefit from Clifroy Limited's lease contract at its current premises. The current owners of the property (Crelim Pty Ltd, Karaman Investments Pty Ltd and Pamar Pty Ltd) have continued an existing lease with Clifroy Limited since purchasing the property on 23 July 2007. The amount of rent and outgoings paid was \$92,715.37 (2010: \$88,962.96).

No other 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 | 2011 | 2010 |
|---|-------------|-------------|
| Adrian Howard Nelson | 15,001 | 15,001 |
| Michelle Kellie Burns | 8,501 | 8,501 |
| Jenny Maree Farrar | 2,001 | 2,001 |
| Jennifer Anne Gawne | 1,001 | 1,001 |
| Greg Randall Tinkler | 10,000 | 10,000 |
| Yann Burden (Appointed 17 August 2010) | - | - |
| Aisling Mary Callaghan (Appointed 25 May 2011) | - | - |
| Clare Elizabeth Carmody (Appointed 20 June 2011) | - | - |
| Karen Patricia Dynon (Resigned 26 August 2010) | 13,501 | 13,501 |
| Manuel Tsirmiris (Resigned 16 November 2010) | 5,001 | 5,001 |
| John Alexander Gray Price (Resigned 7 April 2011) | 500 | 500 |
| Rosemary Marks (Appointed 16 September 2010, Resigned 4 May 2011) | - | - |

There was no movement in Directors shareholdings during the year.

| | 2011 | 2010 |
|--|-------------|-------------|
| | \$ | \$ |

Note 21. Dividends Paid or Provided

a. Dividends paid during the year

| | | |
|---|---|---|
| Unfranked dividend - Nil cents (2010: Nil cents) per share | - | - |
|---|---|---|

b. Dividends proposed and recognised as a liability

| | | |
|---|---|---|
| Unfranked dividend - Nil cents (2010: Nil cents) per share | - | - |
|---|---|---|

c. Dividends proposed and not recognised as a liability

| | | |
|---|---------------|---|
| Unfranked dividend - 8 cents (2010: Nil cents) per share | 69,361 | - |
|---|---------------|---|

At the Company's July Board meeting a motion was passed to pay an 8 cent per share unfranked dividend. The Company's first dividend record date is 30 September 2011 and payment will be made on 31 October 2011.

Notes to the financial statements continued

Note 22. Key Management Personnel Disclosures

No Director of the Company receives remuneration for services as a Company Director or committee member.

| | 2011 | 2010 |
|--|-------------|-------------|
| | \$ | \$ |

Note 23. Earnings Per Share

(a) Profit attributable to the ordinary equity holders of the Company used in calculating earnings per share

| | |
|---------|---------|
| 138,312 | 111,603 |
|---------|---------|

| | Number | Number |
|--|---------------|---------------|
| (b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 867,013 | 867,013 |

Note 24. Events Occurring After the Balance Sheet Date

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

Note 25. Contingent Liabilities

There were no contingent liabilities at the date of this report to affect the financial statements.

Note 26. Segment Reporting

The economic entity operates in the service sector where it facilitates **Community Bank**[®] services in the Clifton Hill and North Fitzroy suburbs of Melbourne, Victoria pursuant to a franchise agreement with Bendigo and Adelaide Bank Limited.

Note 27. Registered Office/Principal Place of Business

The entity is a Company limited by shares, incorporated and domiciled in Australia. The registered office and principal place of business is:

| | |
|-----------------------|-----------------------------|
| Registered Office | Principal Place of Business |
| 101 Queens Parade | 101 Queens Parade |
| Clifton Hill VIC 3068 | Clifton Hill VIC 3068 |

Notes to the financial statements continued

Note 28. Financial Instruments

Net Fair Values

The net fair values of financial assets and liabilities approximate the carrying values as disclosed in the balance sheet. The Company does not have any unrecognised financial instruments at the year end.

Credit Risk

The maximum exposure to credit risk at balance date to recognised financial assets is the carrying amount of those assets as disclosed in the balance sheet and notes to the financial statements.

There are no material credit risk exposures to any single debtor or group of debtors under financial instruments entered into by the economic entity.

Interest Rate Risk

| Financial instrument | Floating interest rate | | Fixed interest rate maturing in | | | | | | Non interest bearing | | Weighted average effective interest rate | |
|------------------------------|------------------------|---------|---------------------------------|---------|-------------------|--------|--------------|------|----------------------|--------|--|------|
| | | | 1 year or less | | Over 1 to 5 years | | Over 5 years | | | | | |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % | % |
| Financial Assets | | | | | | | | | | | | |
| Cash and cash equivalents | 267,367 | 256,951 | 194,429 | 113,613 | - | - | - | - | 150 | 163 | 5.48 | 1.91 |
| Receivables | - | - | - | - | - | - | - | - | 73,131 | 66,543 | N/A | N/A |
| Financial Liabilities | | | | | | | | | | | | |
| Interest bearing liabilities | - | - | 4,968 | 4,968 | 8,253 | 11,939 | - | - | - | - | 7.74 | 7.74 |
| Payables | - | - | - | - | - | - | - | - | 29,722 | 45,090 | N/A | N/A |

Directors' declaration

In accordance with a resolution of the Directors of Clifroy Limited, we state that:

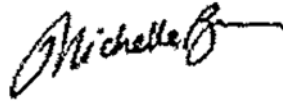
In the opinion of the Directors:

- (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 its performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (c) the audited remuneration disclosures set out in the remuneration report section of the Directors' report comply with Accounting Standard AASB124 Related Party Disclosures and the Corporations Regulations 2001.

This declaration is made in accordance with a resolution of the Board of Directors.



Adrian Howard Nelson, Chairman



Michelle Kellie Burns, Company Secretary

Signed on the 7th of September 2011.

Independent audit report



Independent Auditor's Report To The Members Of Clifroy Limited

Report on the Financial Report

We have audited the accompanying financial report of Clifroy Limited, which comprises the balance sheet as at 30 June 2011, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes and the Directors' Declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and presentation of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making fair accounting estimates that are reasonable in the circumstances. In note 1, the directors also state in accordance with the Accounting Standard AASB 101 Presentation of Financial Statements that the financial statements comply with International Financial Reporting Standards.

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. These auditing 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 our 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, we consider internal controls relevant to the entity's preparation and presentation 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 entity'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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the company's financial position and of its performance.

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

Liability limited by a scheme approved under Professional Standards Legislation. ABN: 51 061 795 337.

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61-65 Bull St./PO Box 454 Bendigo Vic. 3552

afs@afsbendigo.com.au

www.afsbendigo.com.au

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Independent audit report continued

Independence

In conducting our audit we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion on the Financial Report

In our opinion:


- 1) The financial report of Clifroy Limited is in accordance with the Corporations Act 2001 including giving a true and fair view of the company's financial position as at 30 June 2011 and of its financial performance and its cash flows for the year then ended and complying with Australian Accounting Standards and the Corporations Regulations 2001.
- 2) The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Clifroy Limited for the year ended 30 June 2011, complies with section 300A of the Corporations Act 2001.



GRAEME STEWART
ANDREW FREWIN & STEWART
61-65 Bull Street, Bendigo, 3550

7th September 2011

BSX report

As per listing rule 3.17

(a) the date at which the information is current (which must be no more than 6 weeks before the report is sent to security holders);

24 August 2011.

(b) details of all material differences between the information in the entity's Annexure 3A and the information in the financial documents in its annual report;

There are no material differences between the information in the Company's Annexure 3A and the information in the financial documents of Clifroy Limited's 2011 Annual Report.

(c) a statement of the main corporate governance practices the entity had in place during the reporting period (including whether it had an audit committee);

The Company recognises the need for provision of strategic direction and sound oversight by the Board to enable management to carry out its responsibilities within broadly defined parameters and without the day to day intervention of the Board.

The Company has adopted policies which define the different roles of Board and management, and which govern the way in which the Board discharges its duties.

Additionally, the Franchise Agreement which governs the Company's operations as a Bendigo Bank **Community Bank**[®] Branch also sets out roles and responsibilities of both the Board and management.

Role of the Board

To provide strategic leadership. It does this by having a focus on the future, and proactively identifying new opportunities for developing the Company's operations.

Role of Management

To carry out the day to day operations of the business, supervising branch staff and liaising with customers, sponsored groups, Bendigo and Adelaide Bank Ltd and other stakeholders within our community.

The Branch Manager reports in writing to the Board at its monthly meetings on matters such as business development, staffing, compliance with Financial Services legislation, and any branch issues that need to be brought to the attention of the Board.

Board structure

The Board is composed of eight individuals who are either local residents or local business people. Each have had experience in either running a small business, working in corporations, representing local communities or serving in local government.

The Board has established a number of committees to assist with its ongoing businesses. These are:

- Finance & Audit
- Sponsorship
- Business Development
- Governance & HR

BSX report continued

(c) a statement of the main corporate governance practices the entity had in place during the reporting period (including whether it had an audit committee); (continued)

Board conduct

The Company has a policy setting out the conduct expected of the Board and its members.

Financial reporting

The Board has appointed a bookkeeper who is responsible for keeping accurate and up-to-date books of account, and for complying with all legal accounting requirements such as reports to the BSX, the Tax Office and the Australian Securities and Investment Commission.

The bookkeeper attends the monthly Finance & Audit committee meeting, from which there is a monthly report provided to each Board meeting, giving cash flow information as well as actual results compared with budget.

Shareholder rights

The company is listed on the Bendigo Stock Exchange (BSX). Shareholders have the ability to access the half-yearly accounts of the company as well as having the annual accounts mailed to them and having the opportunity to attend the Annual General Meeting of the Company.

Shareholders also receive informal communications by the way of newsletters, giving information about the branch and promotional activities conducted by the Board.

(d) details of the entity's substantial shareholders including their entitlement to equity securities in the entity (as disclosed in substantial shareholding notices given to the entity);

There are no substantial shareholders (holding more than 5% of voting rights) as each shareholder is entitled to one vote.

(e) the number of holders of each class of equity securities;

There are 302 shareholders in the Company.

(f) the voting rights attaching to each class of equity securities;

Each shareholder is entitled to one vote, irrespective of the number of shares held.

(g) a distribution schedule of the number of holders in each class of equity securities:

| Number of shares held | Number of shareholders |
|------------------------------|-------------------------------|
| 1 to 1,000 | 171 |
| 1,001 to 5,000 | 96 |
| 5,001 to 10,000 | 22 |
| 10,001 to 100,000 | 13 |
| 100,001 and over | 0 |
| Total shareholders | 302 |

BSX report continued

(h) the number of holders holding less than a marketable parcel of the entity's main class securities , based on the market price at the specified date;

There are 9 shareholders holding less than a marketable parcel of shares (\$500 in value).

(i) for each class of unquoted equity securities, the number that are on issue and the number of holders;

All shares on issue are ordinary shares fully paid to \$0.90 per share. There are no unquoted equity securities.

BSX report continued

(j) details of the 10 largest shareholders of each class of quoted equity securities including the number of equity securities and percentage of capital each holds;

| Shareholder | # of shares | % of capital |
|--|----------------|--------------|
| *Roxel Cape Pty Ltd <Employees Super Fund A/C> | 15,000 | 1.73 |
| *Dr Joanne Finkelstein | 15,000 | 1.73 |
| Mr Adrian H Nelson & Ms Glenda M Lindsay | 15,001 | 1.73 |
| Deep Green Enterprises P/L | 16,600 | 1.91 |
| Owen Beaton & Roslyn Beaton <Not The Cobden Butter Factory Superannuation Fund A/C> | 20,000 | 2.31 |
| Brendan Mitchell <Mitchell Leighton A/C> | 20,000 | 2.31 |
| Casconsulting Pty Ltd <Lightfood Retirement Fund> | 20,000 | 2.31 |
| David Parsons Super Nom P/L | 20,000 | 2.31 |
| Martrak (Vic) Pty Ltd | 20,000 | 2.31 |
| Rotary Club Collingwood Inc | 20,000 | 2.31 |
| Mrs Joy Lorraine Dale & Mr Russel James Dale | 20,000 | 2.31 |
| | 201,601 | 23.27 |

*Please note eleven shareholders are included in the list above, as these shareholders hold an equal number of shares (15,000 shares) – and therefore form 'equal tenth' place on this list.

(k) the name of the entity's Secretary;

Michelle Burns

(l) the address and telephone of the entity's registered office and of its principal administrative office;

101 Queens Parade, Clifton Hill VIC 3068

Phone: (03) 9482 9040

(m) the address and telephone number of the office at which a securities register is kept;

AFS & Associates

61-65 Bull Street, Bendigo VIC 3550

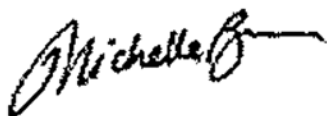
Phone: (03) 5443 0344

BSX report continued

(n) the number of restricted securities on issue and the date upon which they will cease to be restricted securities;

There are no restricted securities on issue.

Yours sincerely,

A handwritten signature in black ink that reads "Michelle Burns". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Michelle Burns
Company Secretary

Clifroy Ltd
P O Box 91
Clifton Hill, VIC 3068



Clifton Hill/North Fitzroy **Community Bank**[®] Branch
 101 Queens Parade, Clifton Hill VIC 3068
 Phone: (03) 9482 9040

Franchisee: Clifroy Limited
 101 Queens Parade, Clifton Hill VIC 3068
 Phone: (03) 9482 9040
 ABN: 31 114 604 358

www.bendigobank.com.au/clifton_hill_north_fitzroy
 Bendigo and Adelaide Bank Limited,
 The Bendigo Centre, Bendigo VIC 3550
 ABN 11 068 049 178. AFSL 237879.
 (BMPAR11002) (06/11)

