



Annual Report 2017

Clifroy Limited

ABN 31 114 604 358

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

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Chairman's report

For year ending 30 June 2017

Dear Shareholder,

As the newly-appointed Chair of Clifroy Limited, it gives me particular pleasure to share my thoughts with you in my first Chair's Report. As many of you know I was involved in the genesis of our **Community Bank**[®] company, and have served as a Director ever since the branch opened.

Looking back over 11 years, it is hard to believe what we have achieved. This includes a banking book of almost \$200 million, shareholder returns of capital and dividends for eight of those years and sponsorships and grants to over 200 community organisations totalling over \$1.6 million. The 2016/17 financial year has been particularly successful, with book growth of 11% over the prior year.

A key factor in the branch's success has been the experience, stability, and unrelenting commitment of our Branch Manager Rod May who retired in January 2017 after a long career in banking.

It was Rod, who over the years, recruited our outstanding staff members, some of whom are still with us. He made sure they upheld the highest standards of competence, accountability and customer focus. It was also Rod who in the early years supported and educated a nervous group of rookie Directors in the ways of banking governance, risk management and compliance.

I am pleased to put on record in this report the Board's sincere thanks to Rod for everything he contributed to our **Community Bank**[®] company over his 11 years of service.

Over the course of 2016/17 financial year, our branch continued with our Community Grants Program in both April and September and have continued supporting community organisations through in kind support and a \$192,000 investment back into our community. Clifroy has also parked \$100,000 into the Community Enterprise Foundation[™] for future projects. Our vision for community partners to initiate and encourage referrals, coupled with regional and local marketing strategies and good old fashioned word of mouth has proven to be an effective model of engagement that continues to pay dividends to our shareholders our stakeholders and the community.

The Community Engagement Committee has continued to prioritise supporting children and youth projects, targeting disadvantage in our community and contributing to high impact programs. We undertook two rounds of sponsorship that support community groups and projects across the inner North. We also provided significant financial support to our current hallmark projects, the Jobs for Youth Campaign, Early Years Literacy, the rebuilding of the Clifton Hill Scout Hall, the rebuild of the St John's Primary School play equipment and our Supporting our Local Schools Campaign where we worked with 14 local schools.

Our shareholders

It is the Board's policy to pay a dividend to our shareholders subject to the financial demands and sustainability of the business. This year, for the sixth year in a row, the Board has determined that a dividend will be paid later this year of 6 cents per share fully franked. This represents a return to shareholders of \$52,020, a yield of approximately 7.5% on the price of shares as recently traded.

We continue to reach out to our 300 shareholders via social media and other initiatives, however less than half actually bank with us. One of my objectives will be to change this going forward, and I welcome any feedback you care to provide about any aspect of the business where you feel we can improve and get you more involved in the business as our community enterprise moves from strength to strength.

Our Board, management and staff

I have already recognised the contribution of former Branch Manager Rod May to our ongoing success. In the last year several of our staff have moved on to bigger and better things, Melissa Forester, David Hightet, and Michael Goode all made significant contributions to the business over several years and we thank them.

Chairman's report (continued)

Following Rod's retirement, the recruitment of Kim Dower to manage the branch and Michael Galante to proactively seek new business from existing and new customers are exciting and mould-breaking initiatives that we are confident will deliver further business growth in the year ahead. The branch team including David Burdett, Toni Vavala, Kate Mulholland, and new recruit Alahna Desiato have stepped up to their new challenges and the Board is confident we have a solid and rejuvenated branch team for 2017/18 financial year.

Your volunteer Board, supported by Bookkeeper Nicky White, Assistant Secretary Bonita Ralph, and our Partnerships Coordinator Lee Chia, have continued to demonstrate an extraordinary commitment to our business which I know will continue. Our succession planning initiative is also working well, with Board Associate Fiona O'Leary joining our Board as a Director in August and Ro Roberts joining our team as a Board Associate. As the new Chair I have introduced quarterly planning for our Board and senior staff that coincides with our strategic plan that is reviewed twice a year. Our focus has changed to be aligned with our values of supporting youth and disadvantage within our community. We will be looking at our next big project that will indeed have a considerable social impact. I'm proud to be a founding member of Clifroy Limited and leading such a highly skilled Board of Directors.

Finally, I particularly want to thank Peter Hille for his exceptional efforts as Board Chair for the last three years, and I am delighted that Peter is continuing as a Director and Deputy Chair supporting me in the role as Chair.



Jenny Farrar
Chair

Manager's report

For year ending 30 June 2017

Welcome to our new financial year with new staff and a new structure. During the journey of 2016/17 to our new year 2017/18, the branch has seen a lot of changes. Rod May has retired seeking a sea change. David Highett has gone back to study and embark on a new road to travel. Michael Galante has taken on the role of Mobile Relationship/Community Engagement Manager. Alahna Desiato is our new Customer Service Officer. And I have joined the team as the new Branch Manager. With the guidance of branch stalwarts Toni Vavala, David Burdett and Kate Mulholland our new team has hit the ground running and is already achieving new business growth.

As at 30 June 2017 our business was in a strong position with a total book of \$183 million, \$12 million up from last year. Deposits totalled \$108 million held across 6,020 accounts, and our loan portfolio of 622 loans represented \$75 million.

Michael Galante has joined the team with an abundance of knowledge, charm and enthusiasm. Michael worked for Bendigo Bank for 10 years and then changed careers to work with Mitsubishi for a few years. Michael's real passion however is banking, and fortunately for us he has come back to his first love. With his always present smile and positive attitude Michael has seen last year out on a high note and has already built an impressive business pipeline since July.

My background is also banking, and for the last 14 years I worked with another financial institution. Since joining Clifroy I have embraced the community concept and am enjoying my new role immensely.

A huge thankyou and acknowledgement goes out to Toni Vavala, David Burdett and Kate Mulholland. These three loyal staff are the backbone of the branch and despite all the recent changes, they have upheld the high customer service standards which our community values and respects. We now have in place a first class team in the branch who are kicking goals.

Finally I'd like to thank the Clifroy Limited Board of Directors and staff for their support for me personally as I find my feet in this role, and for their ongoing work to help build this wonderful community branch.



Kim Dower
Branch Manager

Community Engagement & Mobile Manager's report

For year ending 30 June 2017

Firstly, I would like to thank the Board for the opportunity to work with such a fantastic organisation that does much for our local area. Since joining Clifroy in May 2017 it is fair to say that I have fallen in love with my role as Community/Mobile Relationship Manager.

As a previous Bendigo and Adelaide Bank employee in company-owned branches, being a part of a **Community Bank**[®] branch supporting amazing community activities that really make a difference has been quite overwhelming.

From the Young Changemakers Program run in collaboration with the Inner North Foundation, to the current Vocational Mentoring initiative for students that I choose to support as a volunteer, it is clear the community is very appreciative of everything we are doing. It is a rare and special thing that a bank can change so many local people's lives yet that is what we are achieving, day in day out.

My focus since joining Clifroy has been on stimulating new business from existing and new customers and community partners, with the goal of helping the business exceed a total book of \$200 million for the first time.

If you would like a visit from me to discuss how your banking relationship can make a difference in our community then please contact me direct on 0407 915 115 and I'll be happy to show you how.

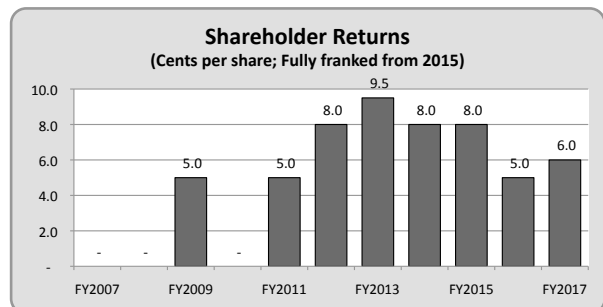
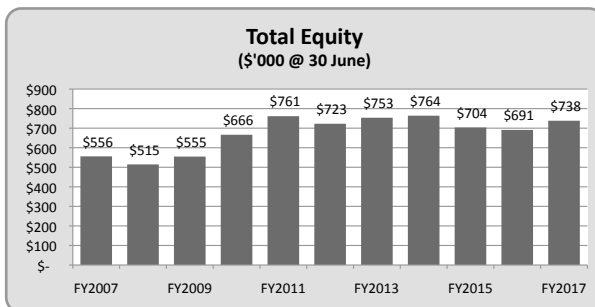
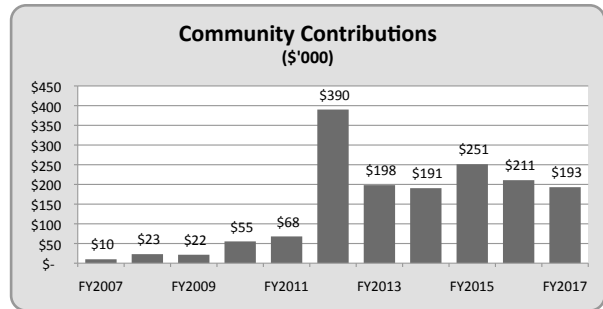
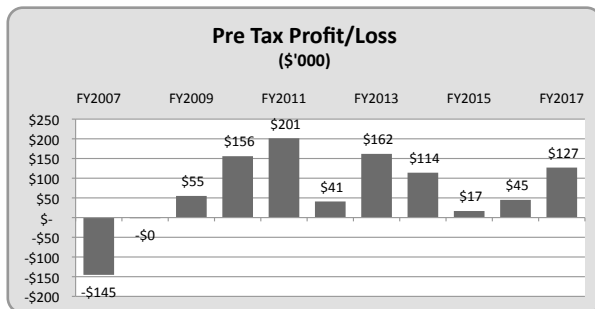
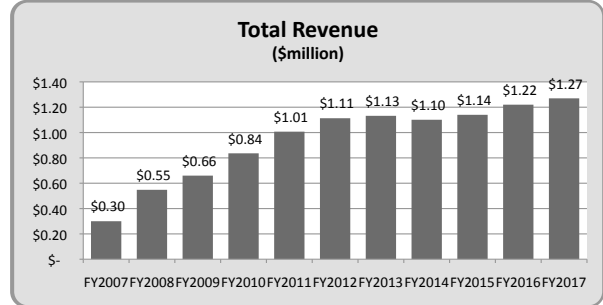
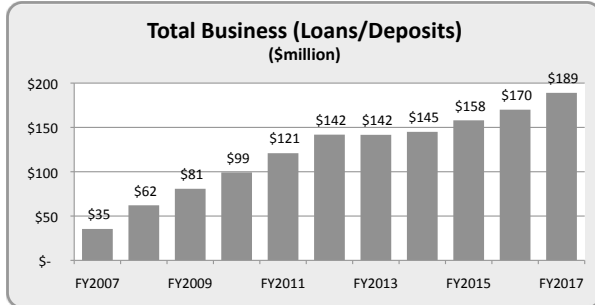
Finally, a big thank you to the great team at the Clifton Hill / North Fitzroy **Community Bank**[®] Branch of Kim, David, Toni, Alanah, and Kate, all of whom continue to serve our community with energy and passion.



Michael Galante
Community Engagement & Mobile Manager

Performance summary

1 July 2006 to 30 June 2017



Community Support Funding

Sponsorships and Grants supporting local community organisations in 2016/17

| Organisation | Value |
|---|----------|
| Arts, Culture and Heritage | |
| BSG Art Pty - Brunswick Street Gallery | \$1,182 |
| Globelight Incorporated | \$500 |
| Soul Theatre Inc | \$3,500 |
| The Boite (Vic) Inc | \$1,000 |
| City of Yarra | \$5,000 |
| High Street Bells Choir | \$2,290 |
| Soloukhin Russina Literature Society | \$1,000 |
| The Outer Sanctum | \$2,000 |
| Children/Youth | |
| Blue Light Victoria | \$1,000 |
| Collingwood Toy Library | \$1,430 |
| Inner Northern Local Learning | \$50,000 |
| Rotary Club of Fitzroy | \$1,500 |
| Civic, Religious and Other Interest Groups | |
| Fitzroy Learning Network | \$7,500 |
| Alphington Community Centre | \$1,000 |
| Holden Street Neighbourhood House Inc | \$1,000 |
| Jika Jika Community Centre Inc | \$5,500 |
| Education | |
| Batman Park Kindergarten | \$250 |
| Defib Your Club for Life | \$5,000 |
| Fitzroy Primary School | \$6,364 |

| Organisation | Value |
|---|----------|
| Education (continued) | |
| Inner North Community Foundation | \$27,273 |
| John Street Community Early Childhood Co-op | \$750 |
| Northcote Nursery, Lundy's Pty Ltd T/A | \$4,091 |
| St Martin's Community Development Inc | \$2,200 |
| U3A - University of the Third Age | \$3,500 |
| St John's Primary School Clifton Hill | \$15,000 |
| Sport | |
| Alphington Football Club | \$1,000 |
| Burnley Women's Golf Club | \$1,000 |
| Clifton Hill Cricket Club Inc | \$2,500 |
| Collingwood Basketball Association Inc | \$3,800 |
| Edinburgh Cricket Club Inc | \$3,500 |
| Fitzroy Baseball Club | \$836 |
| Fitzroy Football Club | \$7,500 |
| Fitzroy Junior Football Club Inc | \$4,000 |
| Mercantile Cricket Umpires Association | \$2,000 |
| Northcote Park Football Club | \$7,750 |
| Thornbury Turf Stokers Cricket Club | \$1,000 |
| Westgarth Baseball Club | \$1,250 |
| Yarra Jets Football Club Inc | \$3,000 |
| Youlden Parkville Cricket Club | \$4,000 |

2016/17 Sponsorships and Grants Total **\$192,965**

Directors' report

For the financial year ended 30 June 2017

Your directors submit the financial statements of the company for the financial year ended 30 June 2017.

Directors

The names and details of the company's directors who held office during or since the end of the financial year:

Jenny Maree Farrar

Chair

Occupation: Industrial Organiser

Board member since 2005.

Why I chose to become a **Community Bank**[®] Director:

My experience as a Mayor and Councillor of the Yarra City Councillor coupled with my strong connection and understanding of the Clifton Hill and North Fitzroy community and positive and productive relationships with individuals and community groups in the area contribute to the growth of our community enterprise. As an active member of the Steering Committee of the **Community Bank**[®] branch since its inception, I became a Director when the **Community Bank**[®] branch launched in order to contribute to the successful establishment of a genuine, alternative, local banking service where community and shareholders benefit. I am proud to be a founding member of our community enterprise that continues to invest in our vibrant and dynamic community.

What experience I bring to this role:

I have a great range of skills and experience in community engagement and strategic planning. As a former Councillor and Mayor of the City of Yarra I was involved in and developed great relationships within our community, many of which continue today. I also have experience in asset management, community planning, and community development. I have good communication and planning skills and sound knowledge in industrial relations from 13 years of practice in my field of expertise and having studied Mass Communications. Previously a member of the Council of Australasian Tribunals and Councillor Conflict Panel, I bring expertise in conflict resolution in my current role. BA Monash University.

My general philosophy:

I have a strong commitment to social justice, my local community(s), environmental sustainability, family, cooking and the North Melbourne Football Club

Special responsibilities: Chair

Interests in shares: 2,001

Peter Raymond Hille

Deputy Chair

Occupation: HR & Compliance Consultant.

Board member since 2011. Chair 2013 - 2017.

Why I chose to become a **Community Bank**[®] Director:

I was invited to join the Board because of my broad and long-standing community networks and community engagement. I was also aware from the start what the **Community Bank**[®] model meant, as I supported the original steering committee (which founded the Clifroy Ltd Branch) through my networking and advocacy. Several years down the track that model has made a significant difference in the local community and I considered I could add value to the Board as it pursued business growth to underpin its community investment.

Directors' report (continued)

Directors (continued)

Peter Raymond Hille (continued)

Experience I bring to this role:

As a resident of Clifton Hill for 25 years I have brought local knowledge and substantive networks. As a leader and Board Member at a range of local community organisations, I bring an understanding of corporate governance as well as an awareness of community needs and how such needs might be addressed. I am currently Chairman of the Reds Foundation and a Director of the Rotary Club of Fitzroy, Bowls Development Manager of Fitzroy Bowls Club. My professional background includes educational leadership, public speaking, a managerial role in financial services and HR Consultancy – each of these informs and supports my role as a Director of Clifroy Limited.

My general philosophy:

Partnerships can achieve more than individual effort.

Special responsibilities: Board Deputy Chair; Chair of Structure and Resources Committee, Member of Business Development & Marketing Committee

Interests in shares: 2,000

Andrew Blair Minogue

Treasurer

Occupation: Commercial Manager

Board member since April 2013

Why I chose to become a **Community Bank**[®] Director:

The opportunity to serve as a Director on a **Community Bank**[®] Board interested me greatly. I saw my experience and skills as well suited for this important role and felt I could add value to the Board in my area of expertise. I believe the support provided by the bank across the broader community is invaluable and absolutely critical for the provision of important and vital services and opportunities. The long term healthy viability of the **Community Bank**[®] branch is imperative to this cause and I believe and wish to play a part in this endeavour.

Experience I bring to this role:

I have over 20 years experience working in various senior commercial and finance roles across multiple industry sectors. I hold a Bachelor of Business (Monash University) and as a CPA bring to the Board experience in all matters commercial, including financial reporting, budgeting, business planning, and corporate governance.

My general philosophy:

I believe those who CAN should dedicate some of their time to a cause they are passionate about, get involved, make a difference to a life, organisation or community. Hopefully this will provide satisfaction and pride knowing you have played a part in something positive and may inspire peers and generations that follow.

Special responsibilities: Treasurer; Chair of Finance, Governance & Audit Committee

Interests in shares: Nil

Adrian Howard Nelson

Company Secretary

Occupation: Executive Director

Board member since 2005.

“Why I chose to become a **Community Bank**[®] Director:

How many people get to run their own bank? I was coming to the end of my long-term corporate career just as the Clifroy Steering Committee was seeking new volunteers back in 2005. The challenge of establishing a business from scratch, particularly one with such a unique business model – and making a positive contribution to the local community at the same time – was irresistible. 11 years on it's hard to believe what we have achieved, and it still gives me a buzz.

Directors' report (continued)

Directors (continued)

Adrian Howard Nelson (continued)

Experience I bring to this role:

My 15 years with the Dulux Group and almost 20 with Tattersall's were all about sales, marketing and in the latter years strategic business development – both locally and overseas. I was exposed to the workings of Boards as a Director of two of Tattersall's overseas subsidiaries and really enjoyed the balance between a Director's governance role and the business strategy and development role. I successfully completed the AICD Graduate Diploma course in 2004, and retain a keen interest in the continually changing environment in which Directors of public companies are required to operate.

My general philosophy:

I treat others as you would wish to be treated yourself and look out for those less able to cope with today's challenges. Take responsibility for your own actions and hold others accountable for theirs.

Special responsibilities: Company Secretary; Member: Finance, Governance & Audit and Structure & Resources Committees

Interests in shares: 15,002

Yann Burden

Director

Occupation: Software Executive

Board member since 2010.

Why I chose to become a **Community Bank**[®] Director:

I figured that if I enjoyed living within my local community, I should contribute something to it. I was attracted by the innovative business model underpinned by local social purpose.

Experience I bring to this role: Yann is a Northcote resident and runs a software company. With over fifteen years 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**[®] branch. Yann holds a Bachelor from University of Melbourne and is an Honorary Industry Fellow.

My general philosophy:

I try to focus on things I'm passionate about, but remain curious about the things I know little about.

Special responsibilities: Chair of Community Engagement Committee

Interests in shares: Nil

Lauren Mary Zoric

Director

Occupation: Marketing and Communications Manager

Board member since: 24 January 2013

Why I chose to become a **Community Bank**[®] Director:

I think the **Community Bank**[®] model is a brilliant idea and I was excited by the bank's unique business model. I was intrigued by the strategic challenge of continuing to develop new business and find better ways to tell the **Community Bank**[®] story. I also saw the opportunity to become a Director as a way of having a deeper involvement in my community, meeting people and finding ways to make new connections.

Experience I bring to this role:

Marketing and Communications Manager at Melbourne International Film Festival, where the role encompasses marketing and sponsorship, audience development, branding and communications. Previous publicity and marketing roles in arts, music, media and film industries in Australia and the UK. Skills in integrated marketing and communications, campaign strategy, copywriting. Tertiary qualifications: University of Melbourne, Melbourne Business School – Graduate Certificate in Communication and Customer Strategy (2013), RMIT – Certificate II Print Design 1997, RMIT – Bachelor of Arts (Media) 1994.

Directors' report (continued)

Directors (continued)

Lauren Mary Zoric (continued)

My general philosophy: I believe in social justice, the strength of local community and being a good neighbour.

I also believe that good PR and clever marketing can transform excellent, but niche, ideas to more widely accepted mainstream propositions.

Special responsibilities: Member of Community Engagement, Business Development & Marketing, and Finance, Governance & Audit Committees

Interests in shares: Nil

Katherine Esther Kennedy

Director

Occupation: Strategy Manager, Social Traders Ltd

Board member since: 24 January 2013

Why I chose to become a **Community Bank**[®] Director:

I am interested in ensuring that banking choice exists, as it is in decline in Australia. The **Community Bank**[®] branch offers real choice for consumers & business, as well as investing in grass roots community organisations. I want to ensure that this level of choice continues and also that community organisations continue to strengthen our community.

Experience I bring to this role: I am a Clifton Hill resident living a stone's throw from the branch, with more than 20 years experience in senior management, business analysis, business strategy and planning, coaching, workshop facilitation, technology commercialisation and consulting across a broad range of industries in Australia and overseas. I currently work in the social enterprise sector; with a focus on strategic planning, impact measurement and new opportunity assessment and development for Social Traders Limited. Social Traders is a specialist social enterprise development organisation with a national reach. I also manage a specialist medical practice currently servicing the northern suburbs of Melbourne. I hold a Bachelor of Science in Applied Mathematics (University of Limerick), a Masters of Management Technology (Melbourne Business School) and am a graduate of the Australian Institute of Company Directors. For seven years I was a non-executive director of a non-government organisation, focusing on the prevention of child sexual abuse.

My general philosophy:

A vibrant and inclusive community requires its members to get involved. By joining the Clifroy Ltd Board I hope I can continue to contribute to creating a strong & vibrant community in Clifton Hill.

Special responsibilities: Chair of Business Development & Marketing Committee, Member of Structure & Resources Committee

Interests in shares: Nil

Benjamin David Hubbard

Director

Occupation: Public Policy and Public Affairs Consultant

Board member since: 4 June 2014

Why I chose to become a **Community Bank**[®] Director:

My wife and I have been long term customers of the **Community Bank**[®] branch and I had also been looking to be part of something local that was giving back to our community. To be invited on the Board was an ideal opportunity.

Directors' report (continued)

Directors (continued)

Benjamin David Hubbard (continued)

Experience I bring to this role:

Ben is General Manager of Public Policy and Strategy at Maurice Blackburn Lawyers. He has significant experience in risk, strategy, governance, public policy and public administration. Ben's previous professional roles include appointments as Chief of Staff to the Australia's 27th Prime Minister, CEO of the Victorian Bushfire Reconstruction and Recovery Authority, Chief of Staff to the Deputy Prime Minister, and Principal Adviser to the Premier of Victoria. He has also been principal of his own consulting company, a university lecturer, and worked in the biotechnology sector. Ben holds a Bachelor of Commerce in economics and a Masters of Public Policy and Management from the University of Melbourne. He is a Fellow of the Australian Institute of Company Directors, member of AICD State Council, a graduate of its Company Directors Course, and a member of the Institute's Victorian Council. As well as being a director of Clifroy Ltd, he is a director of both YMCA Victoria and YMCA Australia, and a member of the University of Melbourne School of Government Advisory Board.

My general philosophy:

I have had some great opportunities in my short life. I'd like to help others get plenty in theirs too.

Special responsibilities: Member of Community Engagement Committee

Interests in shares: Nil

Amelia Jane Collins

Director

Occupation: Head of Social Media & Digital Content, Origin Energy

Board member since: 5 August 2015

Why I chose to become a **Community Bank**[®] Director:

Several years ago I joined the Murrumbidgee **Community Bank**[®] Branch as director specialising in brand, marketing, communications, sponsorships and partnerships and served the board for two years. I'm now living in Alphington, so I approached the Clifroy board, expressed my interest and began my tenure as a Board Associate before being nominated as director in 2015. I believe the **Community Bank**[®] model is full of opportunity for those who work in it, the customers that choose it and the communities who benefit from it.

Experience I bring to this role:

Amelia is an experienced senior brand and communications marketer specialising in creative and engaging integrated communications and media programs in competitive retail service markets. In her current Role, Amelia is responsible for the strategic development and delivery of social media and digital content for brand, reputation, sales, service and other programs across the enterprise. The objective is to build trust with customers, shift public perceptions, deliver on sales and service objectives, and help meet the organisation's strategic objectives. Amelia holds a BA in Public Relations from RMIT and is partway through a Post Grad, Masters Entrepreneurship at Swinburne University. Amelia and her family live in Alphington, where her son attends the local primary school.

My general philosophy:

People run business. Create meaningful connections with people, and you'll make meaningful progress in business.

Special responsibilities: Member of Structure & Resources and Business Development & Marketing Committees

Interest in shares: Nil

Directors' report (continued)

Directors (continued)

Fiona O'Leary

Director

Occupation: Health Services Project Manager, VMIA

Board member since: 3 August 2017

Why I chose to become a **Community Bank**[®] Director:

I was invited to join the bank as a Board Associate in 2016 because of my involvement in volunteer management. I knew of the Bendigo Bank model, but primarily from the perspective of being a 'friend' to the not for profit sector. I've worked in and around Clifton Hill and Northcote for a few years, and currently live just up the hill in Preston.

Experience I bring to this role:

I started consulting to the NFP and community sector in 2014, after working for quite a few years in public health, government and community organisations. I am committed to supporting grassroots organisations to become more efficient and well structured to increase their ability to serve the community, and understand that this cannot be a 'one size fits all' solution. I love working with the **Community Bank**[®] branch because it allows me to help our community partners in a real and tangible way.

My general philosophy:

I am a passionate believer in equality, diversity and that collectively we succeed when individuals are engaged and valued.

Interest in shares: Nil

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

No directors have material interests in contracts or proposed contracts with the company.

Company Secretary

The Company Secretary is Adrian Howard Nelson, who was appointed the position on the 3 July 2013.

Adrian has experience in sales, marketing and strategic business management.

Principal Activities

The principal activities of the company during the financial year were 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 2017 \$ | Year ended 30 June 2016 \$ |
|-------------------------------|-------------------------------|
| 89,953 | 31,123 |

Operating and financial review

Background

Clifroy Ltd (trading as Clifton Hill/North Fitzroy **Community Bank**[®] Branch) is one of over 320 locally-owned **Community Bank**[®] businesses operated as franchises of the Bendigo and Adelaide Bank Group. The **Community Bank**[®] model delivers market-competitive personal and business banking services supported by outstanding customer service.

Directors' report (continued)

Operating and financial review (continued)

Background (continued)

Uniquely, the profits retained by the locally-owned franchisee company are returned in the form of sponsorships and grants to local community organisations (community partners). Since 2006, Clifroy has provided over \$1.7 million in grants and sponsorships to support and strengthen community organisations in the Clifton Hill, North Fitzroy/Westgarth/Northcote/Fairfield/Alphington catchment. Recipients include schools, sports clubs, toy libraries, and a wide range of community support and self-help organisations.

Clifroy is now 18 months into its current five-year franchise term which expires in February 2021, and holds options to extend the franchise for a further two five-year terms after that date. The branch premises are leased on parallel terms to the franchise agreement providing security of tenure for the business.

The branch staff comprise full and part-time staff employed by Clifroy as well as one staff member seconded from Bendigo and Adelaide Bank Limited. Clifroy is responsible for all staff salaries and on-costs, however employment conditions, payroll system, training and uniform requirements, and performance management processes are specified and substantially carried out by Bendigo and Adelaide Bank Limited on Clifroy's behalf.

All aspects of banking products, systems, and services used and offered by Clifroy are under the control of Bendigo and Adelaide Bank Limited, which provides regularly updated product marketing information for display in the branch as well as mass media advertising and marketing.

The Board comprises volunteers with a broad range of skills who work closely with the branch staff to provide governance for the company on behalf of its shareholders; act as promoters and advocates for the business amongst their personal networks; and manage the processes for the distribution of profits to community partners. The charts following the Chair and Managers' Reports provide a summary of the company's performance since the branch opened in 2006.

Operations and Performance Drivers

The Company is now in its 12th year of operation and has enjoyed consistent growth in its total banking book for most of that period. The business generates revenue by sharing the margin from banking products and services with Bendigo and Adelaide Bank Limited according to the terms of its franchise agreement, hence growth in total book automatically leads to growth in revenue. The company's revenue is managed by the Board to provide for:

- all branch operating costs, all staff costs, banking systems costs, ATM rental and operating costs, local marketing and promotion, training and other incidentals;
- dividends to shareholders, and
- sponsorships and grants to community partner organisations.

Clifroy is estimated to hold approximately 4 - 5% of the available banking business in its catchment area which primarily comprises Clifton Hill, North Fitzroy, Westgarth, Northcote, Fairfield and Alphington. Within this catchment are numerous other banking providers including virtually all major and minor banks, credit unions and significant numbers of ATMs, hence competition to secure and retain banking business is strong.

The main drivers of the company's growth are the convenient, well-located and highly regarded branch on Queens Parade, Clifton Hill, effective localised marketing using conventional and social media, and the networking and promotional efforts of the Board, branch management and staff within the community.

The 2016/17 financial year has seen the business enjoy strong growth, with the total banking book reaching \$190 million for the first time – an increase of 11% on the prior year. This in turn delivered a revenue increase of 5% to \$1.274 million, while operating costs declined by 2.2% as against the 2015/16 financial year. A number of strategies implemented by the Board were responsible for this outcome, particularly the increased use of social medial marketing, tight cost control, and new senior staff appointments designed to increase the branch's capacity for proactive business acquisition.

Directors' report (continued)

Operating and financial review (continued)

After covering all operating and marketing costs, the remaining revenue of the company is available for dividends and sponsorships, with any unspent revenue representing pre-tax profit. The Board has the responsibility to determine the quantum of both dividends (subject to a formula in the franchise agreement which establishes the maximum dividend payable) and sponsorships.

While shareholder support for the business remains strong, it has proved difficult to convert this support into active business growth, regardless of the level of dividends paid out. In October 2016 the Board resolved to pay a reduced dividend of 5c per share fully franked in respect of 2015/16 financial year. This modest reduction enabled the company to stabilise its carried forward losses as well as providing for new and larger community support initiatives which are being developed.

Sponsorship applications from local community organisations are received and reviewed by a specially constituted committee twice yearly in April and October. To receive a sponsorship applicants must satisfy a number of criteria, not least of which is their potential to stimulate new banking business for the company. The Board may accept ad hoc applications and at times initiates community projects itself as it has recently in partnership with the Inner North Community Foundation, to stimulate the creation of youth employment opportunities in our catchment.

The Board was able to approve a total of \$177,000 in sponsorships from revenue in 2016/17 as detailed earlier in this report. In addition, the Board decided to place \$100,000 with Bendigo and Adelaide Bank's Community Enterprise Foundation™ (CEF) which is retained on the company's behalf in an interest bearing account and available to the company in future years for community grants. During the year, a grant of \$15,000 were given to St. John's Primary School, Clifton Hill from Clifroy's CEF funds pool.

Financial Position

A core principle of the **Community Bank**® model is the 50/50 sharing of margin between the Company and Bendigo and Adelaide Bank Limited on the sale of banking products. Since 1 July 2016, Bendigo and Adelaide Bank Ltd has adopted a Funds Transfer Pricing (FTP) model to calculate the company's revenue share. The FTP model is a method used to measure how much each account or product is contributing to overall profitability, given a current cost of marginal funding.

Since the introduction of FTP pricing, the Board has monitored the impact on the company's revenue from the viewpoint of overall quantum and product-related shifts, and has been pleased to note that the overall impact has been minimal.

Business Strategies and Future Prospects

Apart from the governance of the company, the Board's key responsibility is to work with the branch management and staff to grow the business, which in turn allows the Board to pay shareholder dividends and increase its support for local community organisations and projects.

The retirement of Rod May, our Branch Manager since the outset, provided the Board with an opportunity to re-think the company's staffing structure to be more responsive to changing customer needs within our local demographic. Specifically, two new positions were created and filled. Kim Dower, a senior and experienced Bank Manager, was recruited from Defence Bank to take over the management of the branch's day-to-day operations. In parallel, Michael Galante, a previous Bendigo and Adelaide Bank employee, was recruited into a newly created mobile business development role where he is out in the community proactively generating business leads and loan activity for follow up by the branch.

In addition to an increase in business development resources, the Board has invested in the use of targeted social media to expand awareness of the branch and its community activities amongst the new younger, affluent and socially-aware element of our community.

Finally, the Board regularly evaluates all operational risks, and ensures that it is informed of the status of the business both in isolation and in comparison with its peers in the Melbourne area. Following recent reviews, the Board is confident that the business is in a healthy financial position, and there are no significant risks that are likely to have a detrimental impact on its business going forward.

Directors' report (continued)

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 Staff

The Company aims to provide market competitive compensation by offering a package of fixed pay and benefits to all employees. All staff are employed by Clifroy Limited except for the Senior CSO who is seconded from Bendigo and Adelaide Bank Limited. All Branch staff are employed under a Certified Employment Agreement and as such, the Company is guided by Bendigo and Adelaide Bank Limited in determining the remuneration payable.

Seconded 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.

Clifroy Limited staff have the opportunity to participate in a bonus scheme operated by the Company in accordance with the Company's policy for staff remuneration, under which branch performance against budget is a key performance criteria.

Transactions with directors

\$

Peter Raymond Hille provides business development support services to the company.

9,000

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 19 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.

Directors' shareholdings

| | Balance at start of the year | Changes during the year | Balance at end of the year |
|----------------------|------------------------------|-------------------------|----------------------------|
| Jenny Maree Farrar | 2,001 | - | 2,001 |
| Peter Raymond Hille | 2,000 | - | 2,000 |
| Adrian Howard Nelson | 15,002 | - | 15,002 |
| Andrew Blair Minogue | - | - | - |
| Yann Burden | - | - | - |

Directors' report (continued)

Remuneration report (continued)

Directors' shareholdings (continued)

| | Balance at start of the year | Changes during the year | Balance at end of the year |
|--------------------------|------------------------------|-------------------------|----------------------------|
| Lauren Mary Zoric | - | - | - |
| Katherine Esther Kennedy | - | - | - |
| Benjamin David Hubbard | - | - | - |
| Amelia Jane Collins | - | - | - |
| Fiona O'Leary | - | - | - |

Dividends

| | Year ended 30 June 2017 | |
|----------------------------|-------------------------|--------|
| | Cents | \$ |
| Dividends paid in the year | 5 | 43,350 |

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.

Events since 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.

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.

Indemnification and insurance of directors and officers

The company has indemnified all directors and the 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 | | | | | | | | | |
|--------------------------|-------------------------|----|-----------------------------|---|-----------------------------|---|----------------------|---|------------------------|---|----------------------------------|---|
| | | | Structure & Resources | | Finance, Governance & Audit | | Community Engagement | | Sponsorship Assessment | | Business Development & Marketing | |
| | A | B | A | B | A | B | A | B | A | B | A | B |
| Jenny Maree Farrar | 10 | 7 | 6 | 6 | - | - | - | - | 1 | - | - | - |
| Peter Raymond Hille | 10 | 9 | 6 | 5 | 3 | 3 | 8 | 5 | 1 | 1 | 9 | 7 |
| Andrew Blair Minogue | 10 | 9 | - | - | 3 | 3 | - | - | - | - | - | - |
| Adrian Howard Nelson | 10 | 10 | 7 | 5 | 3 | 3 | - | - | - | - | - | - |
| Yann Burden | 10 | 8 | - | - | - | - | 8 | 5 | 1 | 1 | - | - |
| Lauren Mary Zoric | 10 | 8 | - | - | - | - | 8 | 5 | 1 | 1 | 9 | 9 |
| Katherine Esther Kennedy | 10 | 7 | 7 | 7 | 3 | 3 | - | - | - | - | - | - |
| Benjamin David Hubbard | 10 | 10 | - | - | - | - | 8 | 5 | 1 | 1 | - | - |
| Amelia Jane Collins | 10 | 8 | 7 | 6 | - | - | - | - | - | - | 9 | 8 |

A - eligible to attend

B - number attended

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

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 audit 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:

- 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.

Directors' report (continued)

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 20.

Signed in accordance with a resolution of the board of directors at Clifton Hill, Victoria on 8 September 2017.



**Jenny Maree Farrar,
Chair**

Auditor's independence declaration



Lead auditor's independence declaration under section 307C of the *Corporations Act 2001* to the directors of Clifroy Limited

As lead auditor for the audit of Clifroy Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

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

Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550
Dated: 8 September 2017

David Hutchings
Lead Auditor

Financial statements

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2017

| | Notes | 2017 \$ | 2016 \$ |
|--|-------|----------------|---------------|
| Revenue from ordinary activities | 4 | 1,274,365 | 1,219,075 |
| Employee benefits expense | | (504,365) | (549,348) |
| Charitable donations, sponsorship, advertising and promotion | | (332,968) | (321,276) |
| Occupancy and associated costs | | (138,228) | (126,379) |
| Systems costs | | (28,446) | (29,541) |
| Depreciation and amortisation expense | 5 | (37,202) | (39,550) |
| General administration expenses | | (105,848) | (108,510) |
| Profit before income tax expense | | 127,308 | 44,471 |
| Income tax expense | 6 | (37,355) | (13,348) |
| Profit after income tax expense | | 89,953 | 31,123 |
| Total comprehensive income for the year attributable to the ordinary shareholders of the company: | | 89,953 | 31,123 |
| Earnings per share | | ¢ | ¢ |
| Basic earnings per share | 21 | 10.38 | 3.59 |

The accompanying notes form part of these financial statements.

Financial statements (continued)

Balance Sheet as at 30 June 2017

| | Notes | 2017 \$ | 2016 \$ |
|--------------------------------------|-------|----------------|----------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 7 | 515,727 | 434,415 |
| Trade and other receivables | 8 | 114,797 | 100,111 |
| Current tax asset | 11 | - | 16,659 |
| Total Current Assets | | 630,524 | 551,185 |
| Non-Current Assets | | | |
| Property, plant and equipment | 9 | 247,952 | 221,819 |
| Intangible assets | 10 | 48,575 | 62,131 |
| Total Non-Current Assets | | 296,527 | 283,950 |
| Total Assets | | 927,051 | 835,135 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade and other payables | 12 | 129,122 | 117,696 |
| Current tax liabilities | 11 | 25,512 | - |
| Provisions | 13 | 19,438 | 14,311 |
| Total Current Liabilities | | 174,072 | 132,007 |
| Non-Current Liabilities | | | |
| Deferred tax liability | 11 | 13,014 | 5,886 |
| Provisions | 13 | 2,047 | 5,927 |
| Total Non-Current Liabilities | | 15,061 | 11,813 |
| Total Liabilities | | 189,133 | 143,820 |
| Net Assets | | 737,918 | 691,315 |
| Equity | | | |
| Issued capital | 14 | 753,928 | 753,928 |
| Accumulated losses | 15 | (16,010) | (62,613) |
| Total Equity | | 737,918 | 691,315 |

The accompanying notes form part of these financial statements.

Financial statements (continued)

Statement of Changes in Equity for the year ended 30 June 2017

| | Issued capital \$ | Accumulated losses \$ | Total equity \$ |
|--|-------------------------|-----------------------------|-----------------------|
| Balance at 1 July 2015 | 753,928 | (50,386) | 703,542 |
| Total comprehensive income for the year | - | 31,123 | 31,123 |
| Transactions with owners in their capacity as owners: | | | |
| Shares issued during period | - | - | - |
| Costs of issuing shares | - | - | - |
| Dividends provided for or paid | - | (43,350) | (43,350) |
| Balance at 30 June 2016 | 753,928 | (62,613) | 691,315 |
| Balance at 1 July 2016 | 753,928 | (62,613) | 691,315 |
| Total comprehensive income for the year | - | 89,953 | 89,953 |
| Transactions with owners in their capacity as owners: | | | |
| Shares issued during period | - | - | - |
| Costs of issuing shares | - | - | - |
| Dividends provided for or paid | - | (43,350) | (43,350) |
| Balance at 30 June 2017 | 753,928 | (16,010) | 737,918 |

The accompanying notes form part of these financial statements.

Financial statements (continued)

Statement of Cash Flows for the year ended 30 June 2017

| | Notes | 2017 \$ | 2016 \$ |
|---|-------------|-----------------|------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 1,255,140 | 1,315,736 |
| Payments to suppliers and employees | | (1,098,854) | (1,198,522) |
| Interest received | | 6,211 | 8,148 |
| Income taxes paid | | 11,944 | 14,529 |
| Net cash provided by operating activities | 16 | 174,441 | 139,891 |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (49,779) | (35,470) |
| Payments for intangible assets | | - | (67,781) |
| Net cash used in investing activities | | (49,779) | (103,251) |
| Cash flows from financing activities | | | |
| Dividends paid | | (43,350) | (43,350) |
| Net cash used in financing activities | | (43,350) | (43,350) |
| Net increase/(decrease) in cash held | | 81,312 | (6,710) |
| Cash and cash equivalents at the beginning of the financial year | | 434,415 | 441,125 |
| Cash and cash equivalents at the end of the financial year | 7(a) | 515,727 | 434,415 |

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2017

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 and Interpretations issued by the Australian Accounting Standard Boards and the Corporations Act 2001. The company is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

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

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.

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.

Application of new and amended accounting standards

There are a number of amendments to accounting standards issued by the Australian Accounting Standards Board (AASB) that became mandatorily effective for accounting periods beginning on or after 1 July 2016, and are therefore relevant for the current financial year.

None of these amendments to accounting standards issued by the Australian Accounting Standards Board (AASB) materially affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

There are also a number of accounting standards and interpretations issued by the Australian Accounting Standards Board (AASB) that become effective in future accounting periods.

The company has elected not to apply any accounting standards or interpretations before their mandatory operative date for the annual reporting period beginning 1 July 2016. These future accounting standards and interpretations therefore have no impact on amounts recognised in the current period or any prior period.

Only AASB 16 Leases, effective for the annual reporting period beginning on or after 1 January 2019 is likely to impact the company. This revised standard will require the branch lease to be capitalised.

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.

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 (continued)

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**[®] branch 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.

The company promotes and sells the products and services, but is not a party to the transaction.

The credit risk (i.e. the risk that a customer will not make repayments) is for the relevant Bendigo and Adelaide Bank Limited entity to bear as long as the company has complied with the appropriate procedures and relevant obligations and has not exercised a discretion in granting or extending credit.

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 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
- 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 benefits 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).

Revenue calculation

The franchise agreement provides that three forms of revenue may be earned by the company – margin, commission and fee income. Bendigo and Adelaide Bank Limited decides the form of revenue the company earns on different types of products and services.

The revenue earned by the company is dependent on the business that it generates. It may also be affected by other factors, such as economic and local conditions, for example, interest rates.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

b) Revenue (continued)

Core banking products

Bendigo and Adelaide Bank Limited has identified some Bendigo Bank Group products and services as 'core banking products'. It may change the products and services which are identified as core banking products by giving the company at least 30 days' notice. Core banking products currently include Bendigo Bank branded home loans, term deposits and at call deposits.

Margin

Margin is arrived at through the following calculation:

- Interest paid by customers on loans less interest paid to customers on deposits
- plus any deposit returns i.e. interest return applied by Bendigo and Adelaide Bank Limited for a deposit,
- minus any costs of funds i.e. interest applied by Bendigo and Adelaide Bank Limited to fund a loan.

Margin is paid on all core banking products. A funds transfer pricing model is used for the method of calculation of the cost of funds, deposit return and margin.

The company is entitled to a share of the margin earned by Bendigo and Adelaide Bank Limited (i.e. income adjusted for Bendigo and Adelaide Bank Limited's interest expense and interest income return). However, if this reflects a loss, the company incurs a share of that loss.

Commission

Commission is a fee paid for products and services sold. It may be paid on the initial sale or on an ongoing basis. Commission is payable on the sale of an insurance product such as home contents. Examples of products and services on which ongoing commissions are paid include leasing and Sandhurst Trustees Limited products.

Fee income

Fee income is a share of what is commonly referred to as 'bank fees and charges' charged to customers by Bendigo Bank Group entities including fees for loan applications and account transactions.

Discretionary financial contributions

In addition to margin, commission and fee income, and separate from the franchise agreement, Bendigo and Adelaide Bank Limited has also made discretionary financial payments to the company. These are referred to by Bendigo and Adelaide Bank Limited as a "Market Development Fund" (MDF).

The amount has been based on the volume of business attributed to a branch. The purpose of the discretionary payments is to assist with local market development activities, including community sponsorships and donations.

It is for the board to decide how to use the MDF.

The payments from Bendigo and Adelaide Bank Limited are discretionary and Bendigo and Adelaide Bank Limited may change the amount or stop making them at any time.

Ability to change financial return

Under the franchise agreement, Bendigo and Adelaide Bank Limited may change the form and amount of financial return that the company receives. The reasons it may make a change include changes in industry or economic conditions or changes in the way Bendigo and Adelaide Bank Limited earns revenue.

The change may be to the method of calculation of margin, the amount of margin, commission and fee income or a change of a margin to a commission or vice versa. This may affect the amount of revenue the company receives on a particular product or service. The effect of the change on the revenue earned by the company is entirely dependent on the change.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

b) Revenue (continued)

Ability to change financial return (continued)

If Bendigo and Adelaide Bank Limited makes a change to the margin or commission on core banking products and services, it must not reduce the margin and commission the company receives on core banking products and services Bendigo and Adelaide Bank Limited attributes to the company to less than 50% (on an aggregate basis) of Bendigo and Adelaide Bank Limited's margin at that time. For other products and services, there is no restriction on the change Bendigo and Adelaide Bank Limited may make.

Bendigo and Adelaide Bank Limited must give the company 30 days' notice before it changes the products and services on which margin, commission or fee income is paid, the method of calculation of margin and the amount of margin, commission or fee income.

Monitoring and changing financial return

Bendigo and Adelaide Bank Limited monitors the distribution of financial return between **Community Bank®** companies and Bendigo and Adelaide Bank Limited on an ongoing basis.

Overall, Bendigo and Adelaide Bank Limited has made it clear that the **Community Bank®** model is based on the principle of shared reward for shared effort. In particular, in relation to core banking products and services, the aim is to achieve an equal share of Bendigo and Adelaide Bank Limited's margin.

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.

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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

c) Income tax (continued)

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the Statement of Profit or Loss and Other 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.

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 are 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
- computers and software 4 years
- motor vehicles 3 - 5 years

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

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.

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 Profit or Loss and Other Comprehensive Income.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

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.

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.

Notes to the financial statements (continued)

Note 2. Financial risk management (continued)

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.

(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.

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 where 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 2017 can be seen in the Statement of Profit or Loss and Other 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.

Notes to the financial statements (continued)

Note 3. Critical accounting estimates and judgements (continued)

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.

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. There is therefore 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 Profit or Loss and Other 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.

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.

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.

Notes to the financial statements (continued)

| | 2017 \$ | 2016 \$ |
|--|------------------|------------------|
| Note 4. Revenue from ordinary activities | | |
| Operating activities: | | |
| - gross margin | 1,113,863 | 855,264 |
| - services commissions | 49,426 | 211,519 |
| - fee income | 89,493 | 94,523 |
| - market development fund | 10,000 | 50,000 |
| Total revenue from operating activities | 1,262,782 | 1,211,306 |
| Non-operating activities: | | |
| - interest received | 5,753 | 7,769 |
| - sundry income | 5,830 | - |
| Total revenue from non-operating activities | 11,583 | 7,769 |
| Total revenues from ordinary activities | 1,274,365 | 1,219,075 |

Note 5. Expenses

Depreciation of non-current assets:

| | | |
|--------------------------|--------|--------|
| - plant and equipment | 7,899 | 8,286 |
| - leasehold improvements | 14,833 | 17,300 |
| - computers and software | - | 215 |
| - motor vehicles | 914 | - |

Amortisation of non-current assets:

| | | |
|-------------------------|---------------|---------------|
| - franchise agreement | 2,260 | 2,291 |
| - franchise renewal fee | 11,296 | 11,458 |
| | 37,202 | 39,550 |
| Bad debts | 558 | 678 |

Note 6. Income tax expense

The components of tax expense comprise:

| | | |
|--|---------------|---------------|
| - Current tax | 30,227 | 5,361 |
| - Movement in deferred tax | 7,128 | 13,526 |
| - Adjustment to deferred tax to reflect change to tax rate in future periods | - | (214) |
| - Recoupment of prior year tax losses | - | 3,745 |
| - Under/over provision in respect to prior years | - | (9,070) |
| | 37,355 | 13,348 |

Notes to the financial statements (continued)

| | 2017 \$ | 2016 \$ |
|---|---------------|---------------|
| Note 6. Income tax expense (continued) | | |
| The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows | | |
| Operating profit | 127,308 | 44,472 |
| Prima facie tax on profit from ordinary activities at 27.5% (2016: 28.5%) | 35,010 | 12,674 |
| Add tax effect of: | | |
| - non-deductible expenses | 2,345 | 1,154 |
| - timing difference expenses | (7,128) | (4,722) |
| | 30,227 | 9,106 |
| Movement in deferred tax | 7,128 | 13,526 |
| Adjustment to deferred tax to reflect change of tax rate in future periods | - | (214) |
| Under/(Over) provision of income tax in the prior year | - | (9,070) |
| | 37,355 | 13,348 |

Note 7. Cash and cash equivalents

| | | |
|--------------------------|----------------|----------------|
| Cash at bank and on hand | 259,516 | 184,415 |
| Term deposits | 256,211 | 250,000 |
| | 515,727 | 434,415 |

Note 7.(a) Reconciliation to cash flow statement

The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year as follows:

| | | |
|--------------------------|----------------|----------------|
| Cash at bank and on hand | 259,516 | 184,415 |
| Term deposits | 256,211 | 250,000 |
| | 515,727 | 434,415 |

Note 8. Trade and other receivables

| | | |
|--------------------------------|----------------|----------------|
| Trade receivables | 97,171 | 83,698 |
| Prepayments | 16,450 | 14,778 |
| Other receivables and accruals | 1,176 | 1,635 |
| | 114,797 | 100,111 |

Note 9. Property, plant and equipment

Leasehold improvements

| | | |
|-------------------------------|----------------|----------------|
| At cost | 303,812 | 291,796 |
| Less accumulated depreciation | (123,674) | (108,841) |
| | 180,138 | 182,955 |

Notes to the financial statements (continued)

| | 2017 \$ | 2016 \$ |
|---|----------------|----------------|
| Note 9. Property, plant and equipment (continued) | | |
| Plant and equipment | | |
| At cost | 90,186 | 80,808 |
| Less accumulated depreciation | (49,843) | (41,944) |
| | 40,343 | 38,864 |
| Computer and software | | |
| At cost | 15,000 | 15,000 |
| Less accumulated depreciation | (15,000) | (15,000) |
| | - | - |
| Motor vehicles | | |
| At cost | 28,385 | - |
| Less accumulated depreciation | (914) | - |
| | 27,471 | - |
| Total written down amount | 247,952 | 221,819 |
| Movements in carrying amounts: | | |
| Leasehold improvements | | |
| Carrying amount at beginning | 182,954 | 172,144 |
| Additions | 12,017 | 28,110 |
| Disposals | - | - |
| Less: depreciation expense | (14,833) | (17,300) |
| Carrying amount at end | 180,138 | 182,954 |
| Plant and equipment | | |
| Carrying amount at beginning | 38,865 | 39,791 |
| Additions | 9,377 | 7,360 |
| Disposals | - | - |
| Less: depreciation expense | (7,899) | (8,286) |
| Carrying amount at end | 40,343 | 38,865 |
| Computer and software | | |
| Carrying amount at beginning | - | 215 |
| Additions | - | - |
| Disposals | - | - |
| Less: depreciation expense | - | (215) |
| Carrying amount at end | - | - |

Notes to the financial statements (continued)

| | 2017 \$ | 2016 \$ |
|---|----------------|----------------|
| Note 9. Property, plant and equipment (continued) | | |
| Motor vehicles | | |
| Carrying amount at beginning | - | - |
| Additions | 28,385 | - |
| Disposals | - | - |
| Less: depreciation expense | (914) | - |
| Carrying amount at end | 27,471 | - |
| Total written down amount | 247,952 | 221,819 |

Note 10. Intangible assets

| | | |
|----------------------------------|---------------|---------------|
| Franchise fee | | |
| At cost | 32,867 | 32,867 |
| Less: accumulated amortisation | (24,771) | (22,512) |
| | 8,096 | 10,355 |
| Renewal processing fee | | |
| At cost | 114,337 | 114,337 |
| Less: accumulated amortisation | (73,858) | (62,561) |
| | 40,479 | 51,776 |
| Total written down amount | 48,575 | 62,131 |

Note 11. Tax

Current:

| | | |
|--|---------------|-----------------|
| Income tax payable/(refundable) | 25,512 | (16,659) |
|--|---------------|-----------------|

Non-Current:

| | | |
|---|-----------------|----------------|
| Deferred tax assets | | |
| - accruals | 1,169 | 1,154 |
| - employee provisions | 5,908 | 5,565 |
| | 7,077 | 6,719 |
| Deferred tax liability | | |
| - accruals | 147 | 274 |
| - property, plant and equipment | 19,944 | 12,331 |
| | 20,091 | 12,605 |
| Net deferred tax liability | (13,014) | (5,886) |
| Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income | 7,128 | 13,313 |

Notes to the financial statements (continued)

| | 2017 \$ | 2016 \$ |
|--|----------------|----------------|
| Note 12. Trade and other payables | | |
| Current: | | |
| Trade creditors | 126,513 | 96,748 |
| Other creditors and accruals | 2,609 | 20,948 |
| | 129,122 | 117,696 |

Note 13. Provisions

| | | |
|---|---------------|---------------|
| Current: | | |
| Provision for annual leave | 14,564 | 13,274 |
| Provision for long service leave | 4,874 | 1,037 |
| | 19,438 | 14,311 |
| Non-Current: | | |
| Provision for long service leave | 2,047 | 5,927 |

Note 14. Contributed equity

| | | |
|--|----------------|----------------|
| 867,013 ordinary shares fully paid (2016: 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) | (43,350) |
| | 753,928 | 753,928 |

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.

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**[®] branch have the same ability to influence the operation of the company.

Notes to the financial statements (continued)

Note 14. Contributed equity (continued)

(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 2001.

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 296 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.

The National Stock Exchange (NSX) 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 NSX.

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.

Notes to the financial statements (continued)

| | 2017 \$ | 2016 \$ |
|--|-----------------|-----------------|
| Note 15. Accumulated losses | | |
| Balance at the beginning of the financial year | (62,613) | (50,386) |
| Net profit from ordinary activities after income tax | 89,953 | 31,123 |
| Dividends paid or provided for | (43,350) | (43,350) |
| Balance at the end of the financial year | (16,010) | (62,613) |

Note 16. Statement of cash flows

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

| | | |
|--|----------------|----------------|
| Profit from ordinary activities after income tax | 89,953 | 31,123 |
| Non cash items: | | |
| - depreciation | 23,646 | 25,801 |
| - amortisation | 13,556 | 13,749 |
| Changes in assets and liabilities: | | |
| - (increase)/decrease in receivables | (14,686) | (21,724) |
| - (increase)/decrease in other assets | 16,659 | 21,991 |
| - increase/(decrease) in payables | 11,426 | 65,940 |
| - increase/(decrease) in provisions | 1,247 | (2,875) |
| - increase/(decrease) in current tax liabilities | 32,640 | 5,886 |
| Net cash flows provided by operating activities | 174,441 | 139,891 |

Note 17. 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 | 99,672 | 97,241 |
| - between 12 months and 5 years | 282,403 | 372,755 |
| - greater than 5 years | - | - |
| | 382,075 | 469,996 |

The property lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. The current lease was renewed in February 2016 for a further five years.

Notes to the financial statements (continued)

| | 2017 \$ | 2016 \$ |
|---|--------------|--------------|
| Note 18. Auditor's remuneration | | |
| Amounts received or due and receivable by the auditor of the company for: | | |
| - audit and review services | 5,500 | 5,100 |
| - non audit services | 2,890 | 3,058 |
| | 8,390 | 8,158 |

Note 19. Director and related party disclosures

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with Key Management Personnel

| | | |
|--|-------|-------|
| Peter Raymond Hille provides business development support services to the company. | 9,000 | 8,000 |
|--|-------|-------|

Key Management Personnel Shareholdings

| | | |
|----------------------------|--------|--------|
| Ordinary shares fully paid | 19,003 | 19,003 |
|----------------------------|--------|--------|

Detailed shareholding disclosures are provided in the remuneration report, included as part of the directors' report.

Community Bank[®] Directors' Privileges Package

The board has adopted the **Community Bank**[®] Directors' Privileges Package. The package is available to all directors, who can elect to avail themselves of the benefits based on their personal banking with the **Community Bank**[®] branch at Clifton Hill/North Fitzroy, Victoria. There is no requirement to own BEN shares and there is no qualification period to qualify to utilise the benefits. The package mirrors the benefits currently available to Bendigo and Adelaide Bank Limited shareholders. The total benefits received by the directors from the Directors' Privilege Package are \$nil for the year ended 30 June 2017 (2016: \$nil).

| | 2017 \$ | 2016 \$ |
|---|---------------|---------------|
| Note 20. Dividends paid or provided | | |
| a. Dividends paid during the year | | |
| Current year dividend | | |
| 100% (2016: 100%) franked dividend - 5 cents (2016: 5 cents) per share | 43,350 | 43,350 |

The tax rate at which dividends have been franked is 27.5% (2016: 30%).

Notes to the financial statements (continued)

| | 2017 \$ | 2016 \$ |
|--|---------------|---------------|
| Note 20. Dividends paid or provided (continued) | | |
| b. Franking account balance | | |
| Franking credits available for subsequent reporting periods are: | | |
| - franking account balance as at the end of the financial year | 14,922 | 40,063 |
| - franking credits/(debits) that will arise from payment/(refund) of income tax as at the end of the financial year | 25,512 | (16,658) |
| - franking debits that will arise from the payment of dividends recognised as a liability at the end of the financial year | - | - |
| Franking credits available for future financial reporting periods: | 40,434 | 23,405 |
| - franking debits that will arise from payment of dividends proposed or declared before the financial report was authorised for use but not recognised as a distribution to equity holders during the period | - | - |
| Net franking credits available | 40,434 | 23,405 |

Note 21. Earnings per share

| | | |
|--|--------|--------|
| (a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share | 89,953 | 31,123 |
|--|--------|--------|

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

Note 22. Events occurring after the reporting date

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

Note 23. Contingent liabilities and contingent assets

The Company has entered in to a two-year sponsorship arrangement for a total of \$100,000 with Inner Northern Local Learning and Employment Network to support their Jobs for Youth initiative. The first payment of \$50,000 was made in 2017 financial year and the second will be in 2018 financial year.

Note 24. Segment reporting

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

Notes to the financial statements (continued)

Note 25. 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

101 Queens Parade
Clifton Hill VIC 3068

Principal Place of Business

101 Queens Parade
Clifton Hill VIC 3068

Note 26. Financial instruments

Financial Instrument Composition and Maturity Analysis

The table below reflects the undiscounted contractual settlement terms for all financial instruments, as well as the settlement period for instruments with a fixed period of maturity and interest rate.

| Financial instrument | Floating interest | | Fixed interest rate maturing in | | | | | | Non interest bearing | | Weighted average | |
|------------------------------|-------------------|---------|---------------------------------|---------|-------------------|---------|--------------|---------|----------------------|---------|------------------|--------|
| | | | 1 year or less | | Over 1 to 5 years | | Over 5 years | | | | | |
| | 2017 \$ | 2016 \$ | 2017 \$ | 2016 \$ | 2017 \$ | 2016 \$ | 2017 \$ | 2016 \$ | 2017 \$ | 2016 \$ | 2017 % | 2016 % |
| Financial assets | | | | | | | | | | | | |
| Cash and cash equivalents | 259,366 | 184,265 | 256,211 | 250,000 | - | - | - | - | 150 | 150 | 1.26 | 1.85 |
| Receivables | - | - | - | - | - | - | - | - | 97,171 | 83,698 | N/A | N/A |
| Financial liabilities | | | | | | | | | | | | |
| Payables | - | - | - | - | - | - | - | - | 126,513 | 96,748 | N/A | N/A |

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

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from the interest bearing financial assets and liabilities in place subject to variable interest rates, as outlined above.

Notes to the financial statements (continued)

Note 26. Financial instruments (continued)

Sensitivity Analysis

The company has performed sensitivity analysis relating to its exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in interest rates.

As at 30 June 2017, the effect on profit and equity as a result of changes in interest rate, with all other variables remaining constant would be as follows:

| | 2017 | 2016 |
|---------------------------------|-------------|-------------|
| | \$ | \$ |
| Change in profit/(loss) | | |
| Increase in interest rate by 1% | 5,156 | 4,343 |
| Decrease in interest rate by 1% | (5,156) | (4,343) |
| Change in equity | | |
| Increase in interest rate by 1% | 5,156 | 4,343 |
| Decrease in interest rate by 1% | (5,156) | (4,343) |

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 2017 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.



Jenny Maree Farrar,
Chair

Signed on the 8th of September 2017.

Independent audit report



Chartered Accountants

61 Bull Street, Bendigo 3550
PO Box 454, Bendigo 3552
03 5443 0344
afsbendigo.com.au

Independent auditor's report to the members of Clifroy Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial report of Clifroy Limited is 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 2017 and of its performance for the year ended on that date; and
- ii. complying with Australian Accounting Standards.

What we have audited

Clifroy Limited's (the company) financial report comprises the:

- ✓ Statement of profit or loss and other comprehensive income
- ✓ Balance sheet
- ✓ Statement of changes in equity
- ✓ Statement of cash flows
- ✓ Notes comprising a summary of significant accounting policies and other explanatory notes
- ✓ The directors' declaration of the entity.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report.

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Other information

The company usually prepares an annual report that will include the financial statements, directors' report and declaration and our independence declaration and audit report (the financial report). The annual report may also include "other information" on the entity's operations and financial results and financial position as set out in the financial report, typically in a Chairman's report and Manager's report, and reports covering governance and shareholder matters.

The directors are responsible for the other information. The annual report is expected to be made available to us after the date of this auditor's report.

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Independent audit report (continued)

Our opinion on the financial report does not cover the other information and accordingly we will not express any form of assurance conclusion thereon.

Our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If we identify that a material inconsistency appears to exist when we read the annual report (or become aware that the other information appears to be materially misstated), we will discuss the matter with the directors and where we believe that a material misstatement of the other information exists, we will request management to correct the other information.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2017. 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 on the remuneration report

In our opinion, the remuneration report of Clifroy Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

There are no key audit matters to disclose for the 30 June 2017 audit.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report so that it gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or cease operations, or have no realistic alternative but to do so.

Auditor's responsibility for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatement can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: <http://www.auasb.gov.au/home.aspx>. This description forms part of our auditor's report.



Andrew Frewin Stewart
61 Bull Street, Bendigo, 3550
Dated: 8 September 2017



David Hutchings
Lead Auditor

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