

Annual Report 2018

Clifroy Limited

Clifton Hill/North Fitzroy
Community Bank® Branch

ABN 31 114 604 358



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Chair's report

For year ending 30 June 2018

Dear Shareholders

Twelve months have quickly passed and I'm enthused to report on yet another year of strong community support activity and business growth for Clifroy Limited. It is an honour to be the Chair and a founding director of this amazing social enterprise that is our Community Bank as we enter our 14th year.

For most of the year the banking industry has been in the spotlight like never before, and we can anticipate further legislative and regulatory changes in the year ahead. The impact of tightening loan conditions has impacted the property market in a big way, and has adversely affected our performance in the second half of the year. The branch achieved its total book budget of \$200m in August 2017, but by June this year the total had fallen to \$189m – just \$1m ahead of FY17 – as loan payouts exceeded new loan activity. Despite this, revenue increased by 7% over FY17 to \$1.31 million due to improved margins and tight cost control.

Despite these challenging market conditions, your board's foresight in establishing the new role of Mobile Relationship Manager enabled the branch to pursue untapped opportunities including a focus on small businesses in the Collingwood and Fitzroy area. The introduction of quarterly business breakfasts has been particularly valuable in exposing the branch to new potential customers.

A major Bendigo Bank TV advertising campaign early in the year featured a commercial showing our branch staff making customers aware of the direct community benefit that their banking can deliver. Other local marketing initiatives included increased use of social media, and the commissioning of billboards in prominent locations in Clifton Hill, Heidelberg, and Brunswick Street Fitzroy.

Our community support activities form a significant part of your board's workload, with individual directors championing specific initiatives as well as managing our established twice-yearly grants program. In FY18 a total of \$359,000 in sponsorships and grants was provided to support a wide range of community groups and projects, and I am delighted to report that this takes our total of community contributions since we opened in 2006 to \$2 million. A further \$50,000 was deposited with Bendigo Bank's Community Enterprise Foundation (CEF). Clifroy currently has \$215,000 on deposit with the CEF which earns interest and can be accessed at any time to fund new community initiatives.

A key focus of our community grant activity is the support of disadvantaged young people, and some 55% of the funds provided in FY18 were directed in this way. Through the work of the Community Engagement Committee, Clifroy has committed to a further three years support of the Jobs for Youth Campaign in partnership with the Inner Northern Local Learning and Employment Network.

This program is delivering significant benefits for young people in Melbourne's inner north, and I encourage you to visit the website for more information (<http://inllen.org.au/initiative/jobs-for-youth-campaign/>). We also continued with our funding of the Early Years Literacy program at Fitzroy Primary School and St John's Primary, and we agreed to contribute of \$50,000 towards the redevelopment of the Clifton Hill Scout Hall.

While these are major programs require significant funding commitments, our Marketing Coordinator Lee Chia made sure that smaller community organisations did not miss out. Community gardens and other gardening groups were offered \$500 nursery vouchers, and in May our broad community partner base were invited to apply for "Helping Hand" grants up to \$1000 each to meet end-of-financial-year commitments.

This year, for the seventh year in a row, your board was able to make a dividend payment to shareholders which was in line with previous years at 6c per share fully franked. Clifroy has almost 300 shareholders who mostly live locally, yet almost half do not bank with us. In the year ahead I will be reaching out to our shareholders to play a more active role in promoting and contributing to our business, and I invite you to engage with Kim Dower our Branch Manager or Michael Galante our Mobile Relationship Manager to compare our products and services.

This year has seen further staff movements, with long term team members David Burdett accepting a promotion to the Bendigo Bank branch in South Melbourne, and Toni Vavala taking extended leave for personal health reasons. Branch Manager Kim Dower has worked hard to ensure that customer service standards have not been affected, and has been strongly supported by Senior CSO Kate Mulholland and Alahna Desiato (CSO).

Chair's report (continued)

For year ending 30 June 2018

This year also saw the retirement of our long serving Bookkeeper Nicky White, and I thank her for her efficiency and commitment to not only our Community Bank but also the Community Bank network. The key support roles of Assistant Secretary and Marketing Coordinator continue to be filled by Bonita Ralph and Lee Chia – both tireless in their enthusiasm and commitment.

Changes to the board saw directors Yann Burden and Fiona O'Leary resign in November 2017 and June 2018 respectively, while Ro Roberts and Daisy Chiumburu were invited to become board associates. Peter Hille has provided me with great support as Deputy Chair, and Andy Minogue (Treasurer) and Adrian Nelson (Company Secretary) continued to oversee our financial health, governance and regulatory compliance.

Finally, I would like to thank all our staff who are the arms and legs of our business and also our extremely talented board for another successful year delivering real social impact within our diverse and vibrant community. I never forget that all our directors and board associates are volunteers who give freely of their time to ensure the continuing success of our Community Bank.



Jenny Farrar
Chair

Manager's report

For year ending 30 June 2018

My first full year as Branch Manager at the Clifton Hill/North Fitzroy **Community Bank**[®] Branch has been a roller coaster ride in a very different banking environment from my previous roles. I am very proud to be part of this enterprising business with a strong and well-respected brand that is making a real difference in the local community.

My amazing branch team have helped me deal with some difficult challenges that we have tackled head on and in most cases with successful outcomes. Michael Galante, assisted by Lee Chia, has focussed on expanding our business and community partner networks to deliver new banking opportunities. The directors commitment to creating a business that is deeply immersed in their community is impressive, and they continue to volunteer their time and expertise to ensure my staff and I are well supported. Together we are creating something very special.

As at 30 June 2018 our business was in a strong position with a total book of \$189 million. Deposits totalled \$115 million (60%) held across 6,157 accounts, and our loan portfolio of 644 loans accounted for the remaining \$73 million (40%).

The staff team in the branch continues to change. After twelve years, David Burdett is taking on new challenges as he moves to manage Bendigo Bank's South Melbourne branch. Toni Vavala, our much-loved Senior Customer Service Officer, is also taking leave for several months for health reasons. I wish them both well.

Kate Mulholland has been promoted to Senior Customer Service Officer and has embraced the role with enthusiasm and great commitment. Alahna Desiato (Customer Service Officer) is fearless in taking on any new challenge and has become a key member of my team. I am pleased to welcome new Customer Service Officer Eden Tylo who has worked hard to learn his role despite coping with a broken ankle for his first few weeks in the branch.

Customer banking needs are changing, and my staff need to adapt. I am implementing more multi-skilling and cross training so enquiries can be answered and followed up with equal competence by everyone. Some changes to the branch layout are also under way, with a revamped customer service area including a service desk to provide a more personalised experience.

Finally, a huge thanks to departing staff who have helped build this exciting business, and to present staff who have supported me, and are embracing change to make a real difference.



Kim Dower

Branch Manager

Community Engagement & Mobile Manager's report

For year ending 30 June 2018

Firstly, a big thank you to the customers and community partners who have supported the branch and allowed us to do so much for our local community. The board's focus on the needs of young people has had a huge impact in our catchment areas by providing opportunities to grow and succeed – all made possible by your support.

My focus since joining Clifroy has been on stimulating new banking 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. While that was achieved during the year, tighter banking regulations and the caps placed on investment lending saw the value of new loans being exceeded by payouts of existing loans during the second half of the year. Despite this, our total book was slightly ahead at year end, and we have established some very strong network connections which I am confident will see the branch's performance improve in 2019.

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

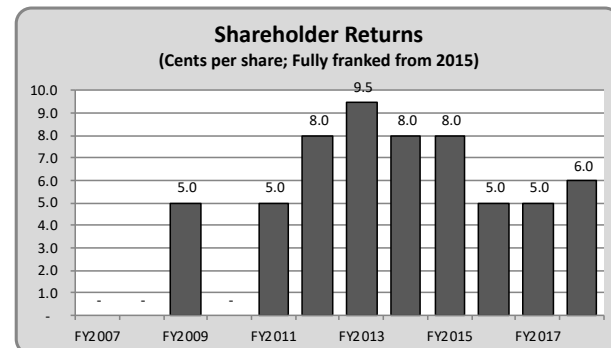
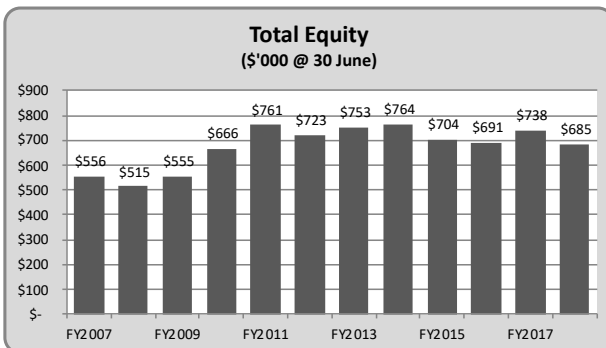
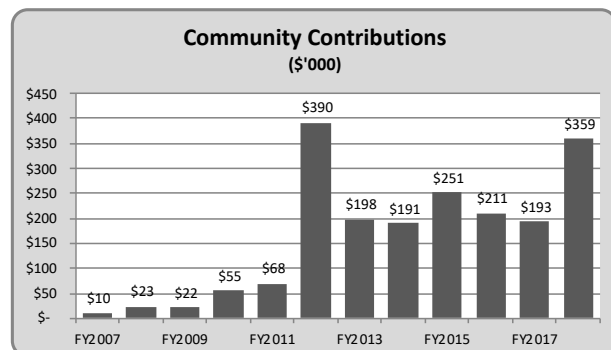
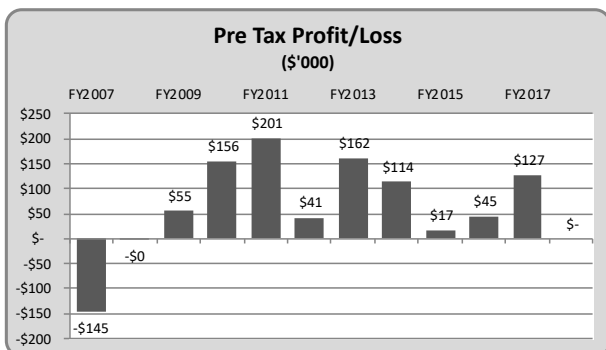
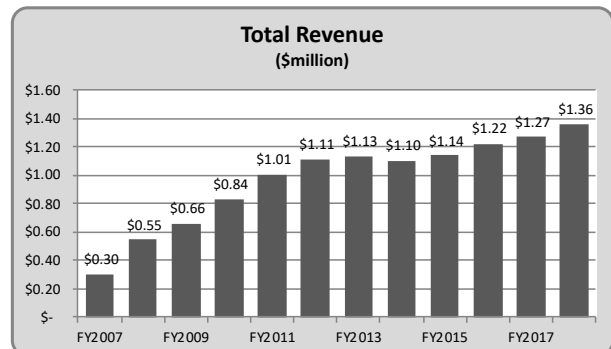
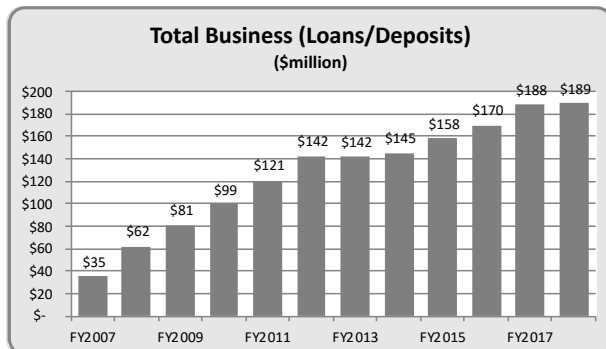
Finally, a big thank you to the great team at the Clifton Hill/North Fitzroy **Community Bank**[®] Branch – Kim, David, Toni, Alahna, Kate and Eden. Your support of my efforts has been brilliant, and you all continue to serve our community with energy and passion.



Michael Galante
Mobile Relationship Manager

Performance summary

1 July 2017 to 30 June 2018



Community support funding

Sponsorships and grants supporting local community organisations in 2016/17

Arts, culture & heritage	
Brunswick Street Gallery	\$5,000.00
Fitzroy Learning Network	\$650.00
Fitzroy Residents Association	\$194.73
High Street Bells Choir	\$1,502.00
Soloukhin Russina Literature Society	\$500.00
South Alphington & Fairfield Civic Assoc	\$10,000.00
Speak Percussion	\$500.00
The Abbotsford Convent Foundation	\$500.00
The Boite (Vic) Inc	\$500.00
The Gertrude Projection Association	\$1,500.00
The Social Studio	\$500.00
Watch This Inc	\$500.00
Children/youth	
Blue Light Victoria	\$5,075.00
Collingwood Toy Library	\$4,534.00
Concern Australia Welfare	\$220.00
Inner North Community Foundation	\$30,780.00
Inner Northern Local Learning	\$100,000.00
Scouts Australia Victoria	\$25,275.00
The Foundation for Young Australians	\$30,000.00
Civic, religious and other interest groups	
3000 Acres	\$5,000.00
Alphington Community Centre	\$4,085.00
Collingwood Neighbourhood House	\$258.00
Condell Growers and Sharers	\$454.77
Donation to Jack Tonino Ride Around Australia	\$200.00
Down Syndrome Victoria	\$1,440.00
Goodsmiths	\$1,000.00
Holden Street Neighbourhood House Inc	\$3,200.00
Link Community Transport	\$5,000.00
Melbourne Farmers Markets	\$10,500.00
Myeloma Australia	\$1,000.00
North Carlton Railway Station Neighbourhood House	\$5,595.00
Northcote Nursery, Lundy's Pty Ltd T/A	\$909.10
Open Table	\$2,000.00

Civic, religious and other interest groups (continued)	
Rotary Club of Preston	\$327.27
St Mary's House of Welcome	\$6,000.00
The Funding Network	\$15,000.00
Education	
Batman Park Kindergarten	\$1,000.00
Fitzroy North Primary School	\$200.00
Fitzroy Primary School	\$12,230.00
Sacred Heart School	\$500.00
Sophia Mundi Steiner School	\$500.00
U3A - University of the Third Age	\$1,473.00
Walker Street Community Kindergarten	\$500.00
Sport	
Alphington Football Club	\$2,500.00
Brunswick Mallet Sports Club	\$330.00
Clifton Hill Cricket Club Inc	\$4,237.00
Collingwood Basketball Association Inc	\$1,580.00
Collingwood Knights Football Club	\$4,000.00
Edinburgh Cricket Club Inc	\$6,000.00
Fitzroy Baseball Club	\$4,000.00
Fitzroy Football Club	\$7,363.64
Fitzroy Lions Soccer Club	\$2,500.00
Fitzroy Victoria Bowling & Sports Club	\$500.00
Margaret Tucker Hostel	\$2,000.00
Melbourne Starts Basketball Club	\$7,000.00
Northcote Park Football Club	\$8,500.00
Rotary Club of Fitzroy	\$1,350.00
Thornbury Bowls Club	\$909.09
Victorian Roller Derby League Inc	\$5,550.00
Youlden Parkville Cricket Club	\$5,000.00
2017/18 Sponsorships and grants total	\$359,422.60

Directors' report

For year ending 30 June 2018

Your directors submit the financial statements of the company for the financial year ended 30 June 2018.

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 Mayor and Councillor of the City of Yarra 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 branch since its inception, I became a director when the Community Bank 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 and developed solid relationships within our community, many not for profits, small and larger businesses. One of my legacies was the establishment of business advisory group(s) for the purpose of engaging with SMEs to large corporates. Skills I bring include: marketing, communications, organising, planning, OHS and sound knowledge in industrial relations. Previously a member of the Council of Australasian Tribunals in my role as a panel member for the Victorian Government I am also an AICD member. 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, Structures & Resource Committee, Finance, Governance & Audit Committee and Sponsorship Assessment Committee

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 in 2011 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.

Experience I bring to this role

As a resident of Clifton Hill for 26 years I bring 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, a director of the Rotary Club of Fitzroy, Bowls Development Manager of Fitzroy Victoria 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: Deputy Board Chair; Chair Structures & Resources Committee, Member Business Development & Marketing Committee

Interests in shares: 2,000

Andrew Blair Minogue

Treasurer

Occupation: Financial & Commercial Consultant

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

Directors' report (continued)

Directors (continued)

opportunities. The long term healthy viability of the community bank 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. Eleven years on, it's hard to believe what we have achieved, and it still gives me a buzz.

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

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

Lauren Mary Zoric

Director

Occupation: Associate Director, Tolarno Galleries

Board member since: 24 January 2013

Why I chose to become a Community Bank director

I think community banking 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 banking 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

Previously Marketing and Communications Manager at Melbourne International Film Festival, where the role encompasses marketing and sponsorship, audience development, branding and communications. Background in publicity and marketing roles in arts, music, media and film industries in Australia and UK. Skills in integrated marketing and communications, campaign strategy, copywriting, strategic business development, sales, communications and operations management.

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.

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 and Finance, Governance & Audit Committees

Interests in shares: Nil

Directors' report (continued)

Directors (continued)

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 offers real choice for consumers and 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 25+ year's 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, working from brands such as Digital, Coles Myer, Telstra, The Woolmark Company and University of Melbourne. 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 focused on connecting social enterprises to business and government procurement opportunities. 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 I 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 and 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: Chief Strategy Officer, Maurice Blackburn Lawyers

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 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.

Experience I bring to this role

I am the Chief Strategy Officer at Maurice Blackburn Lawyers, with significant experience in risk, strategy, governance, public policy and public administration. My previous professional roles include appointments as Chief of Staff to Australia's 27th Prime Minister, Chief Executive Officer of the Victoria Bushfire Reconstruction and Recovery Authority, Chief of Staff to the Deputy Prime Minister and Principal Adviser to the Premier of Victoria. I have also been principal of my own consulting company, a university lecturer and worked in the biotechnology sector. I hold a Bachelor of Commerce in Economics and a Masters of Public Policy and Management from the University of Melbourne. I am a Fellow of the Australian Institute of Company Directors, 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, I am a director of both YMCA Victoria and YMCA Australia. I am a member of the advisory board of the Melbourne School of Government.

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 and Sponsorship Assessment Committees.

Interests in shares: 5,000

Amelia Jane Collins

Director

Occupation: Marketing & Corporate Communications Specialist

Board member since: 5 August 2015

Why I chose to become a Community Bank director

Several years ago I joined the Murrumbeena Community Bank 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

Directors' report (continued)

Directors (continued)

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

I am an accomplished marketing and professional communications strategist specialising in creative and engaging integrated corporate and consumer communications and media programs in competitive service and retail markets. I work privately, consulting with medium and large organisations who require strategic guidance and support with implementation on programs for both internal and external audiences. Before joining the Clifroy board, I served as a director on the Murrumbidgee Community Bank board for two years. My family and I live in Alphonston, where my 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: 3,500

Fiona O'Leary

Director (Appointed 3 August 2017 and Resigned 30 June 2018)

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 not-for-profit 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 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

Yann Burden

Director (Resigned 30 November 2017)

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. 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: Former Chair of Community Engagement Committee

Interests 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.

Directors' report (continued)

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/(loss) of the company for the financial year after provision for income tax was:

Year ended 30 June 2018	Year ended 30 June 2017
\$	\$
(923)	89,953

Operating and financial review

Background

Clifroy Ltd (trading as Clifton Hill/North Fitzroy **Community Bank**[®] Branch) is one of over 330 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.

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 almost \$2 million in grants and sponsorships to support and strengthen community organisations in the Clifton Hill, North Fitzroy/Westgarth/Northcote/Fairfield/Alphington catchment. Recipient organisations include schools, sports clubs, toy libraries, and a wide range of support and developmental organisations with a focus on supporting youth employment and skills enhancement.

Clifroy is now half-way through its current five-year franchise term which expires in February 2021. The company holds options to extend the franchise for a further two five-year terms after that date. The branch premises at 101 Queens Parade, Clifton Hill are leased contemporaneously with 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 has an EWA with its staff and is responsible for all salaries, amenities and on-costs. Employment conditions, payroll management, training and uniform requirements, and performance management processes are 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 of Clifroy 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.

Directors' report (continued)

Operating and financial review (continued)

Operations and performance drivers

The company is now in its 13th 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 margins from banking products and services equally with Bendigo and Adelaide Bank Limited, 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 2017/18 financial year was particularly competitive, and despite at one point the total book exceeding \$200 million for the first time, as at 30 June this had declined to \$189 million – roughly in line with the FY17 result. Despite this, tight cost control and changes in the product mix delivered a revenue increase of 7% to \$1.36 million.

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.

The company has 298 shareholders, almost all of whom live locally and have supported the business from the outset. In October 2017 the board resolved to pay shareholders a dividend of 6c per share fully franked in respect of 2016/17 financial year. Based on recent share sales at around 70c per share, this represents a yield of 8.6%.

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 also accepts ad hoc applications as well as pro-actively seeking community projects and relationships with other philanthropic organisations with similar goals.

The board was able to approve a total of \$359,000 in sponsorships from revenue in 2017/18 as detailed earlier in this report. In addition, the board was able to place \$50,000 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.

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. From 1 July 2016, Bendigo and Adelaide Bank Ltd implemented a Funds Transfer Pricing (FTP) model which enables the margin on all product types to be more accurately calculated in comparison with methodologies used in previous years. This change has if anything been slightly beneficial for Clifroy.

Directors' report (continued)

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.

Over the last 18 months the staffing of the branch has changed significantly following various retirements and departures. Two senior appointments made in 2017 – Kim Dower as Branch Manager and Michael Galante as Mobile Relationship Manager – have proved particularly successful in expanding the profile of the branch in the local area and stimulating new business leads.

Several other staff replacement appointments have been made over the last year and the board is confident that a cohesive and enthusiastic branch team is now in place and working well to service our customers and develop new business.

In addition to the restructuring of staff roles, 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.

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.

No director of the company receives remuneration for services as a company director or committee member.

(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.

No transactions occurred with directors during the current period.

Directors' report (continued)

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
Andrew Blair Minogue	-	-	-
Adrian Howard Nelson	15,002	-	15,002
Lauren Mary Zoric	-	-	-
Katherine Esther Kennedy	-	-	-
Benjamin David Hubbard	-	5,000	5,000
Amelia Jane Collins	-	3,500	3,500
Fiona O'Leary*	-	-	-
Yann Burden**	-	-	-

* Appointed 3 August 2017 and Resigned 30 June 2018

** Resigned 30 November 2017

Dividends

Operations have continued to perform in line with expectations. The profit/(loss) of the company for the financial year after provision for income tax was:

	Year ended 30 June 2018	
	Cents	\$
Dividends paid in the year	6	52,021

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.

Directors' report (continued)

Likely developments

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

Environmental regulation

The company is not subject to any significant environmental regulation.

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' meetings

The number of directors' meetings attended by each of the directors of the company during the year were:

	Board meetings		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	9	7	6	5	4	-	-	1	1	-	-
Peter Raymond Hille	10	4	7	6	1	1	-	-	1	-	10	4
Andrew Blair Minogue	10	9	-	-	5	5	-	-	-	-	-	-
Adrian Howard Nelson	10	8	7	4	5	5	-	-	-	-	-	-
Lauren Mary Zoric	10	10	-	-	5	4	8	6	1	1	-	-
Katherine Esther Kennedy	10	7	7	6	-	-	-	-	-	-	10	9
Benjamin David Hubbard	10	10	-	-	-	-	8	8	1	1	-	-
Amelia Jane Collins	10	8	7	6	-	-	-	-	-	-	10	10
Fiona O'Leary*	10	8	-	-	-	-	7	6	1	1	-	-
Yann Burden**	5	5	-	-	-	-	-	-	-	-	-	-

A - eligible to attend

B - number attended

* Appointed 3 August 2017 and Resigned 30 June 2018

** Resigned 30 November 2017

Directors' report (continued)

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.

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 18.

Signed in accordance with a resolution of the board of directors at Clifton Hill, Victoria on 10 September 2018.



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 2018, 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: 10 September 2018

David Hutchings
Lead Auditor

Financial statements

Statement of Profit or Loss and Other Comprehensive Income For year ending 30 June 2018

	Notes	2018 \$	2017 \$
Revenue from ordinary activities	4	1,365,110	1,274,365
Employee benefits expense		(522,602)	(504,365)
Charitable donations, sponsorship, advertising and promotion		(469,803)	(332,968)
Occupancy and associated costs		(139,770)	(138,228)
Systems costs		(32,408)	(28,446)
Depreciation and amortisation expense	5	(40,855)	(37,202)
General administration expenses		(159,760)	(105,848)
Profit before income tax expense		(88)	127,308
Income tax expense	6	(835)	(37,355)
Profit/(loss) after income tax expense		(923)	89,953
Total comprehensive income for the year attributable to the ordinary shareholders of the company:		(923)	89,953
Earnings per share		¢	¢
Basic earnings per share	21	(0.11)	10.38

The accompanying notes form part of these financial statements.

Financial statements (continued)

Balance Sheet As at 30 June 2018

	Notes	2018 \$	2017 \$
ASSETS			
Current assets			
Cash and cash equivalents	7	533,915	515,727
Trade and other receivables	8	128,556	114,797
Current tax asset	11	8,570	-
Total current assets		671,041	630,524
Non-current assets			
Property, plant and equipment	9	224,914	247,952
Intangible assets	10	35,020	48,575
Total non-current assets		259,934	296,527
Total assets		930,975	927,051
LIABILITIES			
Current liabilities			
Trade and other payables	12	198,880	129,122
Current tax liabilities	11	-	25,512
Provisions	13	34,152	19,438
Total current liabilities		233,032	174,072
Non-current liabilities			
Deferred tax liability	11	9,554	13,014
Provisions	13	3,415	2,047
Total non-current liabilities		12,969	15,061
Total liabilities		246,001	189,133
Net assets		684,974	737,918
EQUITY			
Issued capital	14	753,928	753,928
Accumulated losses	15	(68,954)	(16,010)
Total equity		684,974	737,918

The accompanying notes form part of these financial statements.

Financial statements (continued)

Statement of Changes in Equity for the year ended 30 June 2018

	Notes	Issued capital \$	Accumulated losses \$	Total equity \$
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	20	-	(43,350)	(43,350)
Balance at 30 June 2017		753,928	(16,010)	737,918
Balance at 1 July 2017		753,928	(16,010)	737,918
Total comprehensive income for the year		-	(923)	(923)
Transactions with owners in their capacity as owners:				
Shares issued during period		-	-	-
Costs of issuing shares		-	-	-
Dividends provided for or paid	20	-	(52,021)	(52,021)
Balance at 30 June 2018		753,928	(68,954)	684,974

The accompanying notes form part of these financial statements.

Financial statements (continued)

Statement of Cash Flows for the year ended 30 June 2018

	Notes	2018 \$	2017 \$
Cash flows from operating activities			
Receipts from customers		1,349,363	1,255,140
Payments to suppliers and employees		(1,241,909)	(1,098,854)
Interest received		5,393	6,211
Income taxes paid		(38,377)	11,944
Net cash provided by operating activities	16	74,470	174,441
Cash flows from investing activities			
Payments for property, plant and equipment		(4,261)	(49,779)
Net cash used in investing activities		(4,261)	(49,779)
Cash flows from financing activities			
Dividends paid	20	(52,021)	(43,350)
Net cash used in financing activities		(52,021)	(43,350)
Net increase in cash held		18,188	81,312
Cash and cash equivalents at the beginning of the financial year		515,727	434,415
Cash and cash equivalents at the end of the financial year	7(a)	533,915	515,727

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ending 30 June 2018

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 AASB that became mandatorily effective for accounting periods beginning on or after 1 July 2017, and are therefore relevant for the current financial year.

AASB 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This accounting standard is not expected to have a material impact on the financial statements.

AASB 15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. This accounting standard is not expected to have a material impact on the financial statements.

There are also a number of accounting standards and interpretations issued by the 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 2017. These future accounting standards and interpretations therefore have no impact on amounts recognised in the current period or any prior period.

AASB 16 Leases is effective for annual periods beginning on or after 1 January 2019. The standard introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

The company has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend on future economic conditions, including the company's borrowing rate at 1 January 2019, the composition of the lease portfolio at that date, the latest assessment of whether the company will exercise any lease renewal options and the extent to which the company chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the company will recognise new assets and liabilities for its operating lease of its branch. As at 30 June 2018, the company's future minimum lease payment under non-cancellable operating leases amount to \$282,403, on an undiscounted basis (see Note 17).

No significant impact is expected for the company's finance leases.

Economic dependency – Bendigo and Adelaide Bank Limited

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

The branch operates as a franchise of Bendigo and Adelaide Bank Limited, using the name "Bendigo Bank" and the logo and system of operations of Bendigo and Adelaide Bank Limited. The company manages the **Community Bank**[®] branch on behalf of Bendigo and Adelaide Bank Limited, however all transactions with customers conducted through the **Community Bank**[®] 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 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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

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.

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 branches. 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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

b) Revenue (continued)

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.

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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

b) Revenue (continued)

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

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

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the Statement of 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 gain from a bargain purchase.

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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

g) Property, plant and equipment (continued)

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

– leasehold improvements	5–15 years
– plant and equipment	2.5–4.0 years
– computers and software	4 years
– motor vehicles	3–5 years

h) Intangibles

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

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

i) Payment terms

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

j) Borrowings

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

k) Financial instruments

Recognition and initial measurement

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

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

Derecognition

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

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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

k) Financial instruments (continued)

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.

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) Issued capital

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.

Notes to the financial statements (continued)

Note 2. Financial risk management

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

Risk management is carried out directly by the board of directors.

i) Market risk

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

ii) Price risk

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

iii) Credit risk

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

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 2018 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.

Notes to the financial statements (continued)

Note 3. Critical accounting estimates and judgements

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

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

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

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.

Notes to the financial statements (continued)

	2018	2017
	\$	\$

Note 3. Critical accounting estimates and judgements (continued)

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.

Note 4. Revenue from ordinary activities

Operating activities:		
– gross margin	1,249,820	1,113,863
– services commissions	19,151	49,426
– fee income	80,688	89,493
– market development fund	10,000	10,000
Total revenue from operating activities	1,359,659	1,262,782
Non-operating activities		
– interest received	5,451	5,753
– sundry income	–	5,830
Total revenue from non-operating activities	5,451	11,583
Total revenues from ordinary activities	1,365,110	1,274,365

Note 5. Expenses

Depreciation of non-current assets:		
– plant and equipment	8,475	7,899
– leasehold improvements	11,728	14,833
– motor vehicles	7,096	914
Amortisation of non-current assets:		
– franchise agreement	2,259	2,291
– franchise renewal fee	11,297	11,265
	40,855	37,202
Bad debts	4,188	558

Notes to the financial statements (continued)

	2018	2017
	\$	\$

Note 6. Income tax expense

The components of tax expense comprise:		
- Current tax	4,394	30,227
- Movement in deferred tax	(3,460)	7,128
- Under/(over) provision of tax in the prior period	(99)	-
	835	37,355
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:		
Operating profit/(loss)	(88)	127,309
Prima facie tax on profit from ordinary activities at 27.5% (2017: 27.5%)	(24)	35,010
Add tax effect of:		
- non-deductible expenses	958	2,345
- timing difference expenses	3,460	(7,128)
	4,394	30,227
Movement in deferred tax	(3,460)	7,128
Under/(over) provision of income tax in the prior year	(99)	-
	835	37,355

Note 7. Cash and cash equivalents

Cash at bank and on hand	272,311	259,516
Term deposits	261,604	256,211
	533,915	515,727

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	272,311	259,516
Term deposits	261,604	256,211
	533,915	515,727

Notes to the financial statements (continued)

	2018 \$	2017 \$
Trade receivables	107,467	97,171
Prepayments	19,854	16,450
Other receivables and accruals	1,235	1,176
	128,556	114,797

Note 9. Property, plant and equipment

Leasehold improvements		
At cost	303,812	303,812
Less accumulated depreciation	(135,402)	(123,674)
	168,410	180,138
Plant and equipment		
At cost	94,447	90,186
Less accumulated depreciation	(58,318)	(49,843)
	36,129	40,343
Computer and software		
At cost	15,000	15,000
Less accumulated depreciation	(15,000)	(15,000)
	-	-
Motor vehicles		
At cost	28,385	28,385
Less accumulated depreciation	(8,010)	(914)
	20,375	27,471
Total written down amount	224,914	247,952
Movements in carrying amounts:		
Leasehold improvements		
Carrying amount at beginning	180,138	182,954
Additions	-	12,017
Less: depreciation expense	(11,728)	(14,833)
Carrying amount at end	168,410	180,138
Plant and equipment		
Carrying amount at beginning	40,343	38,865
Additions	4,261	9,377
Less: depreciation expense	(8,475)	(7,899)
Carrying amount at end	36,129	40,343

Notes to the financial statements (continued)

	2018	2017
	\$	\$

Note 9. Property, plant and equipment (continued)

Motor vehicles		
Carrying amount at beginning	(914)	28,385
Additions	28,385	-
Less: depreciation expense	(7,096)	(914)
Carrying amount at end	20,375	27,471
Total written down amount	224,914	247,952

Note 10. Intangible assets

Franchise fee		
At cost	32,867	32,867
Less: accumulated amortisation	(27,030)	(24,771)
	5,837	8,096
Renewal processing fee		
At cost	114,337	114,337
Less: accumulated amortisation	(85,154)	(73,858)
	29,183	40,479
Total written down amount	35,020	48,575

Note 11. Tax

Current:		
Income tax payable/(refundable)	(8,570)	25 512
Non-current:		
Deferred tax assets		
- accruals	1,100	1,169
- employee provisions	10,331	5,908
	11,431	7,077
Deferred tax liability		
- accruals	164	147
- property, plant and equipment	20,821	19,944
	20,985	20,091
Net deferred tax asset	(9,554)	(13,014)
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	(3,460)	13,313

Notes to the financial statements (continued)

	2018	2017
	\$	\$

Note 12. Trade and other payables

Current:		
Trade creditors	173,009	126,513
Other creditors and accruals	25,871	2,609
	198,880	129,122

Note 13. Provisions

Current:		
Provision for annual leave	30,581	14,564
Provision for long service leave	3,571	4,874
	34,152	19,438
Non-current:		
Provision for long service leave	3,415	2,047

Note 14. Issued capital

867,013 ordinary shares fully paid (2017: 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)

	2018	2017
	\$	\$

Note 14. Issued capital (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 298 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)

	2018 \$	2017 \$
Note 15. Accumulated losses		
Balance at the beginning of the financial year	(16,010)	(62,613)
Net profit/(loss) from ordinary activities after income tax	(923)	89,953
Dividends provided for or paid	(52,021)	(43,350)
Balance at the end of the financial year	(68,954)	(16,010)

Note 16. Statement of cash flows

Reconciliation of profit/(loss) from ordinary activities after tax to net cash provided by operating activities

Profit/(loss) from ordinary activities after income tax	(923)	89,953
Non cash items:		
– depreciation	27,299	23,646
– amortisation	13,556	13,556
Changes in assets and liabilities:		
– (increase)/decrease in receivables	(13,759)	(14,686)
– (increase)/decrease in other assets	–	16,659
– increase/(decrease) in payables	69,757	11,426
– increase/(decrease) in provisions	16,082	1,247
– increase/(decrease) in current tax liabilities	(37,542)	32,640
Net cash flows provided by operating activities	74,470	174,441

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	99,672
– between 12 months and 5 years	182,731	282,403
	282,403	382,075

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)

	2018	2017
	\$	\$

Note 18. Auditor's remuneration

Amounts received or due and receivable by the auditor of the company for:		
- audit and review services	5,400	5,500
- non audit services	3,720	2,890
	9,120	8,390

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
Key management personnel shareholdings		
Ordinary shares fully paid	27,503	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 2018 (2017: \$nil).

Note 20. Dividends provided for or paid

a) Dividends paid during the year	52,021	43,350
Current year dividend 100% (2017: 100%) franked dividend - 6 cents (2017: 5 cents) per share		
b) Franking account balance		
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	33,567	14,922
- franking credits/(debits) that will arise from payment/(refund) of income tax as at the end of the financial year	(8,570)	25,512
- 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:	24,997	40,434

Notes to the financial statements (continued)

	2018	2017
	\$	\$

Note 20. Dividends provided for or paid (continued)

b) Franking account balance (continued)

- 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	24,997	23,405

Note 21. Earnings per share

a) Profit/(loss) attributable to the ordinary equity holders of the company used in calculating earnings per share	(923)	89,953
	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.

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.

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	Principal place of business
101 Queens Parade	101 Queens Parade
Clifton Hill VIC 3068	Clifton Hill VIC 3068

Notes to the financial statements (continued)

Note 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.

	Floating interest		Fixed interest rate maturing in						Non interest bearing		Weighted average					
	2018	2017	1 year or less			Over 1 to 5 years			Over 5 years			2017	2018	2017	2018	%
			2018	2017	2018	2017	2018	2017	2018	2017	2018					
Financial instrument	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Financial assets																
Cash and cash equivalents	272,311	259,366	261,6041	256,211	-	-	-	-	-	-	-	-	-	150	1.01	1.26
Receivables	-	-	-	-	-	-	-	-	-	-	107,467	97,171	N/A	N/A	N/A	N/A
Financial liabilities																
Payables	-	-	-	-	-	-	-	-	-	-	173,009	126,513	N/A	N/A	N/A	N/A

Notes to the financial statements (continued)

Note 26. Financial instruments (continued)

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.

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 2018, the effect on profit and equity as a result of changes in interest rate, with all other variables remaining constant would be as follows:

	2018	2017
	\$	\$
Change in profit/(loss)		
Increase in interest rate by 1%	5,339	5,156
Decrease in interest rate by 1%	(5,339)	(5,156)
Change in equity		
Increase in interest rate by 1%	5,339	5,156
Decrease in interest rate by 1%	(5,339)	(5,156)

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 2018 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 10th of September 2018.

Independent audit report



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 2018 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.

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 2018. 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 2018, 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 2018 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: 10 September 2018



David Hutchings
Lead Auditor

NSX report

Clifroy Limited is a public company incorporated in Australia and listed on the National Stock Exchange of Australia (NSX).

Shareholding

The following table shows the number of shareholders, segregated into various categories based on the total number of shares held.

Number of shares held	Number of shareholders	Number of shares held
1 to 1,000	164	109,808
1,001 to 5,000	97	329,102
5,001 to 10,000	20	178,500
10,001 to 100,000	13	249,603
100,001 and over	0	0
	294	867,013

Equity securities

Each of the above shareholders are entitled one 1 vote, irrespective of the number of shares held.

There are no substantial shareholders (holding more than 5% of voting rights) as each shareholder is entitled to one vote. Normally holding more than 5% of total issued shares would create a substantial shareholder, but this is not applicable due to the voting restrictions for the company.

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

There are no restricted securities on issue.

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

Ten largest shareholders

The following table shows the 10 largest shareholders.

Shareholder	Number of fully paid shares held	Percentage of issued capital
Scipio Nominees Pty Ltd <The Thorne Family A/C>	36,001	4.15%
Mr Brendan Mitchell <Mitchell Leighton A/C>	20,000	2.31%
Casconsulting Pty Ltd <Lightfood Retire Fund A/C>	20,000	2.31%
Rotary Club Collingwood Inc	20,000	2.31%
Mr Owen Beaton & Mrs Roslyn Beaton <Not The Cobden B/F S/F A/C>	20,000	2.31%
Mrs Joy Lorraine Dale & Mr Russel James Dale	20,000	2.31%
Martrak (Vic) Pty Ltd	20,000	2.31%
David Parsons Super Nominees Pty Ltd	19,500	2.25%
Deep Green Enterprises Pty Ltd	16,600	1.91%
Forever Friday Pty Ltd <Forever Friday S/Fund A/C>	15,002	1.73%
Total securities of top ten holdings	207,103	23.89%
Total of securities	867,013	

NSX report (continued)

Registered office and principal administrative office

The registered office of the company is located at:

101-103 Queens Parade
Clifton Hill Vic 3068
Phone: (03) 9482 9040

The principal administrative office of the company is located at:

101-103 Queens Parade
Clifton Hill Vic 3068
Phone: (03) 9482 9040

Security register

The security register (share register) is kept at:

Boardroom Pty Ltd
GPO Box 3993
Sydney NSW 2001
Phone: (02) 9290 9600

Company Secretary

Adrian Nelson has been the Company Secretary of Clifroy Limited for four years. Adrian is a graduate of the Australian Institute of Company Directors and is currently a partner and director of renewable energy company Future Energy Pty Ltd.

Corporate governance

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

- (a) The establishment of a finance, governance and audit committee. Members of the committee are Andy Minogue (Director & Treasurer), Katherine Kennedy (Director), and Adrian Nelson (Secretary and Director).
- (b) Director approval of operating budgets and monitoring of progress against these budgets
- (c) Ongoing director training, and
- (d) Monthly director meetings to discuss performance and strategic plans.

Annexure 3

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

Five year summary of performance

	2014	2015	2016	2017	2018
	\$	\$	\$	\$	\$
Gross revenue	1,104,239	1,139,430	1,219,075	1,274,365	1,365,110
Net profit before tax	114,032	16,707	44,471	127,308	(88)
Total assets	878,766	774,582	835,135	927,051	930,975
Total liabilities	114,940	71,040	143,820	189,133	246,001
Total equity	763,826	703,542	691,315	737,918	684,974

Clifton Hill/North Fitzroy **Community Bank**[®] Branch
101 Queens Parade, Clifton Hill VIC 3068
Phone: 9482 9040 Fax: 9482 9010

Franchisee: Clifroy Limited
101 Queens Parade, Clifton Hill VIC 3068
Phone: 9482 9040 Fax: 9482 9010
ABN: 31 114 604 358

Share Registry:
Boardroom Pty Limited
GPO Box 3993, Sydney NSW 2001 Australia
Phone: (within Australia) 1300 737 760
Phone: (outside Australia) +61 2 9290 9600
www.boardroomlimited.com.au

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