KU-RING-GAI FINANCIAL SERVICES LIMITED

ABN 56 103 129 184

ANNUAL REPORT 2013

Turramurra and Lindfield
Community Bank® branches

Bendigo Bank

CELEBRATING 10 years of Community Banking in KU-RING-GAI 2003 2013

KU-RING-GAI FINANCIAL SERVICES LIMITED

ABN 56 103 129 184

ANNUAL REPORT 2013

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This page: *State-of-the-art outdoor kitchen facilities will cater for fire and emergency crews during disaster events*
Front cover: *Why we need our HeroHQ*
Back cover *(clockwise from top left): The official opening of the new State Emergency Service and Rural Bush Fire Brigade facilities by Premier Barry O'Farrell MP, State Member for Ku-ring-gai; David Langdon, Chairman, Ku-ring-gai Financial Services Limited; Paul Fletcher MP, Federal Member for Bradfield; Rural Fire Service Commissioner Shane Fitzsimmons*

Chairman's report

David Langdon, Chairman

It is my pleasure to report on the progress of Ku-ring-gai Financial Services Limited (the company) during the year ended 30 June 2013.

Highlights

The company achieved many new milestones during the 2012/13 financial year during which we have been proudly and publicly celebrating 'the 10th anniversary of community banking in Ku-ring-gai'.

In terms of banking, the value of banking business on the books of our branches exceeded $260 million as at 30 June 2013 which included an increase of $40 million during 2012/13.

Almost $100 million of this banking business comprises lending to local residents and businesses in the form of home loans, business loans, investment loans and personal loans.

Furthermore, our Turramurra **Community Bank®** Branch continued to demonstrate its premier status by surpassing the $220 million total portfolio milestone and cemented its position as one of the most successful **Community Bank®** branches in Australia.

The company's revenue surpassed the $2 million milestone with revenue growth of $253,000 during 2012/13.

The company also returned to profitability notwithstanding a full 12 months of Lindfield operations.

Unfortunately, a disparity in portfolio growth (18%) and revenue growth (14%) has occurred due to the reduced rates of commissions we now receive from Bendigo Bank in respect of two important income streams which comprise more than $135 million of our total portfolio as at 30 June 2013.

On 22 February 2013 Bendigo and Adelaide Bank Limited announced that it would further reduce the commission rates that it pays to **Community Bank®** companies in respect of these two income streams by one third with effect from 1 April 2013. This follows the reduced commission rates originally introduced as at 1 April 2011 for these products.

These reduced commission rates result from the continuing pressure on margins across the Australian financial services industry due to extremely competitive markets characterised by strong price-based competition to secure deposit funds as well as intense competition from the 'Big 4' and new entrants in the home/property loans segments.

These pressures on margins impact on the company due to our 50/50 profit-sharing arrangements with Bendigo and Adelaide Bank Limited.

This second round of commission reductions reduced the company's income stream by approximately $45,000 during the final three months of 2012/13. The full year impact is estimated to be in the order of $200,000 during 2013/14.

Indeed, the adverse impact on the company's revenue arising from these cumulative commission rate reductions will be in the order of $400,000 during 2013/14.

Chairman's report continued

As planned, the company undertook the complete refurbishment of our Turramurra premises during November 2012. This decision was driven by the continuing growth of our Turramurra business and the desirability of operating identical state-of-the-art banking technologies in both of our branches in order to maximise staff flexibility and productivity.

These modernised premises are already delivering significant benefits to our customers and staff as they provide a better environment for our Turramurra staff to deepen their engagement and relationships with existing and prospective customers.

Another pleasing milestone was achieved when our cumulative returns to the community surpassed $1.25 million. These financial contributions continue to support and strengthen our local community.

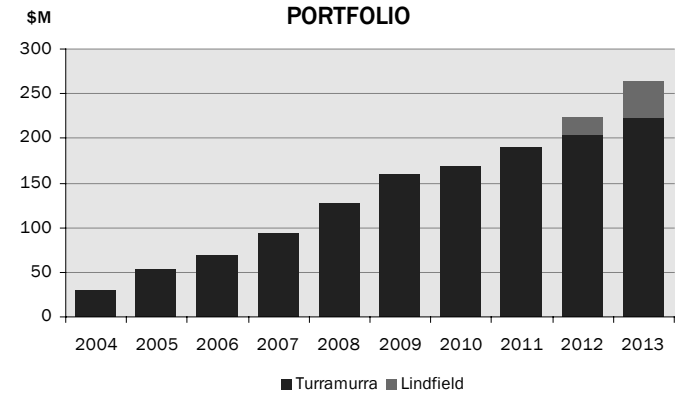
Table 1 summarises our achievements during the past 12 months.

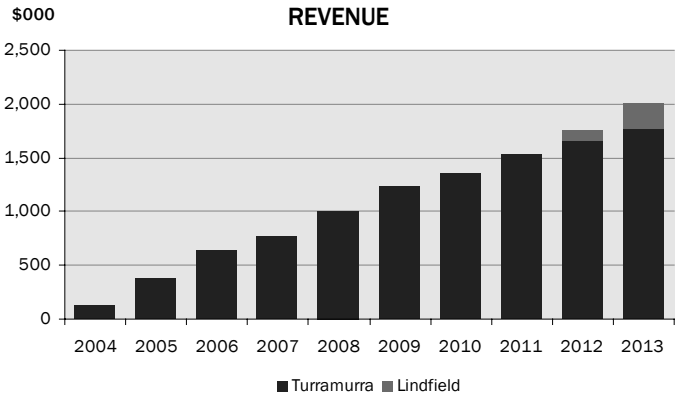
Operating results

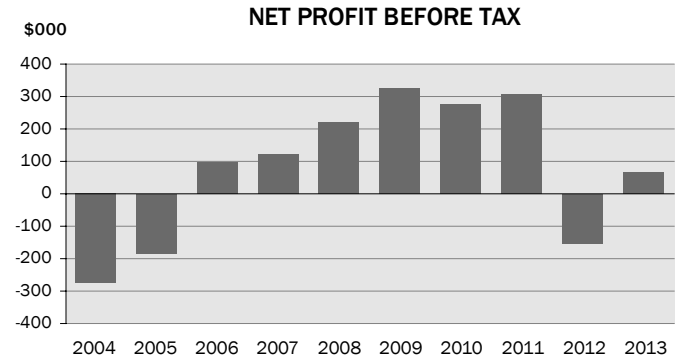
As indicated above, our Turramurra and Lindfield **Community Bank®** branches finished the 2012/13 financial year with a combined portfolio of $264 million and with 3,992 customers and 6,468 customer accounts on our books. As a consequence of portfolio growth in excess of $40 million (18%) the company's revenue from ordinary activities increased by $253,000 (14%) to $2.01 million during this period.

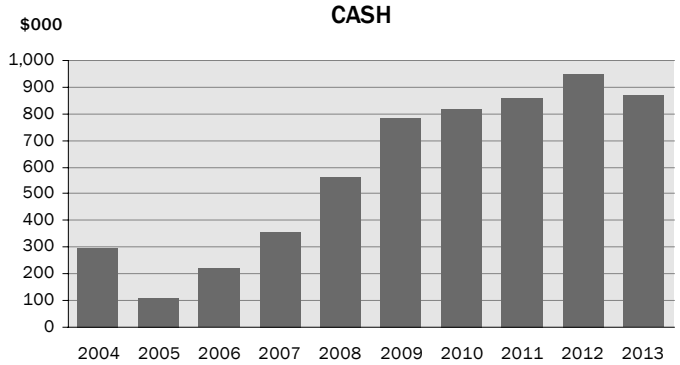
Table 1: Achievements during the past 12 months

DESCRIPTION	TURRAMURRA	LINDFIELD	2013	2012	CHANGE
	$000	$000	$000	$000	%
Revenue	1,772	235	2,007	1,754	14%
Net profit before tax	491	(426)	65	(153)	
Net profit after tax			42	(95)	
	$ MILLION	$ MILLION	$ MILLION	$ MILLION	
Total portfolio	223.2	40.5	263.7	223.6	18%
Total deposits	131.0	24.6	155.6	133.4	17%
Total loans	83.9	14.4	98.3	85.1	16%
Other	8.3	1.5	9.8	5.1	92%
	NO.	NO.	NO.	NO.	
Number of customers	3,423	569	3,992	3,628	10%
Number of accounts	5,692	776	6,468	5,925	9%
			$000	$000	
Community contributions:					
Sponsorship, donations			84.6	75.4	12%
Community grants			76.8	50.0	54%
Total community contributions			161.4	125.4	29%









The net growth in our total portfolio, number of customers and customer accounts achieved by our Turramurra and Lindfield **Community Bank**® Branch staff during this period was particularly pleasing.

Indeed, the $20.4 million net growth in total portfolio achieved by our Turramurra **Community Bank**® Branch was exceptional. This branch is a mature business in its tenth year of operations and accordingly, the run-off of our existing portfolio is steadily increasing and more staff time is required to be directed towards simply maintaining the level of business.

The $19.7 million net growth in total portfolio achieved by our Lindfield **Community Bank**® Branch in its first full year of operations and under the direction of a newly-appointed Branch Manager was also pleasing.

The company achieved a pre-tax profit of $65,000 during this period inclusive of an increased profit of $491,000 for Turramurra and a full year loss of $426,000 for Lindfield.

This result is also after increasing our community contributions by 29% to more than $161,000 during this period.

After provision for income tax, the net profit attributable to members was $42,000 which represents an improvement of $137,000 over 2011/12.

Our balance sheet remains strong despite a small decrease in year-end cash reserves from $950,000 to $869,000 arising from the capital investment associated with the refurbishment of our Turramurra premises.

Chairman's report continued

No dividend

In recognition of the company's modest net profit after tax for 2012/13 and the profitability challenges the company faces in 2013/14 associated with the full year impact of the previously mentioned commission reductions, the directors have resolved to not pay a final dividend in respect of the year ended 30 June 2013.

Investing in our community

As indicated above, the company, via our Turramurra and Lindfield **Community Bank**® branches, returned more than $161,000 to the local community in the form of community grants, donations and sponsorships during 2012/13.

Fittingly, during our on-going celebration of 10 years of the **Community Bank**® model in Ku-ring-gai, our most ambitious long-term community project came to fruition when the new Headquarters buildings of the Ku-ring-gai Bush Fire Brigade and State Emergency Services were officially opened by Premier Barry O'Farrell on 25 May 2013.

The company also presented the keys of a Toyota HiLux utility provided to the Ku-ring-gai Workshop otherwise known as 'The Shed' during a Ku-ring-gai Business Forum Dinner event in October 2012.

This vehicle is being used by The Shed to pick up timber and other bulky materials from across Sydney and deliver finished items to local community groups.

Oh what a feeling! 'The Shed' ute was presented at the Ku-ring-gai Business Forum dinner: Warren Dwyer, Denice Kelly, Kevin Callinan ('The Shed') and David Langdon

Ku-ring-gai Community Grants

Ku-ring-gai Community Grants is a joint initiative partnership between Ku-ring-gai Council and our Turramurra and Lindfield **Community Bank**® branches and was established to expand the scope and scale of each party's previous individual programs.

The inaugural 2012 Ku-ring-gai Community Grants presentation night conducted in November 2012 was a huge success during which grants totalling $135,000 were presented to 37 community groups.

In keeping with the company's previous approach, Ku-ring-gai Community Grants recipients appreciated the opportunity to tell their compelling stories and meet other like-minded community champions.

Rural Fire Service volunteers count community contributions to the 'bucket brigade' collections in the Turramurra **Community Bank**® Branch's automatic cash machine, assisted by staff member Vikki Atkins, a member of the Ku-ring-gai SES. The community exceeded the campaign target with total funds raised over $212,000 (including our $100,000)

Piggy waves off the starters at the inaugural Ku-ring-gai Chase fun run to raise funds for the Special Olympics

Staff Grants

Staff Grants are an exciting new initiative where each member of staff nominates a local community group to receive a small grant to be invested in a community project.

Our Turramurra and Lindfield **Community Bank**® branches each conducted Staff Grants presentation evenings during the past 12 months. By telling their compelling stories, these events helped more than 20 recipients to publicise the services provided by their respective community groups and thereby help to connect these community champions to like-minded community service providers.

Sponsorships and donations

The company also provided almost $85,000 during 2012/13 via financial contributions in the form of sponsorship support and donations to a large number of youth, sporting and other local community groups.

The long list of recipients included Alzheimer's Australia, Cancer Council, Cromehurst Foundation, Diaverum, East Lindfield Bowling Club, East Roseville Bowling Club, Gordon Bowling Club, Gordon Rugby Club, Hamlin Fistula Hospital, Hornsby-Ku-ring-gai Rural Fire Service, Killara Bowling Club, Kissing Point Sports Club, Ku-ring-gai Art Society, Ku-ring-gai Meals on Wheels, Ku-ring-gai Netball Association, Ku-ring-gai Philharmonic Orchestra, Ku-ring-gai SES, Ku-ring-gai Shed, Ku-ring-gai Youth Development Service (KYDS), KU Saddington Rd Preschool, KU South Turramurra, Lady Game Community Kindergarten, Lindfield Bowling Club, Lindfield East Primary School, Lindfield Seniors Rugby Club, Lindfield Women's Bowling Club, Lions Club, Marian Street Theatre for Youth, Monika Rescue, Novus Foundation, Our Lady of Perpetual Succour School, Pymble Turramurra Kindergarten, Rotary Lindfield, Rotary Turramurra, Stars TV, St Lucy's School Foundation, Studio d'Artes, Support Lindfield, Trish MS Foundation, Turramurra Bowling Club, Turramurra **Community Bank** Cup, Turramurra High School, Turramurra Public School, Turramurra Seniors Croquet Club, Warrawee Bowling Club, Warrawee Public School, West Pymble Football Club and Wildthings.

The company sponsored the inaugural Ku-ring-gai **Community Bank**® Bowls Tournament between all local Ku-ring-gai bowling clubs

Chairman's report continued

The total contribution of $161,400 provided by the company to local clubs and community organisations via Community Grants, sponsorships and donations during the past 12 months brings our cumulative contributions to local community groups to almost $800,000.

Inclusive of more than $450,000 in dividends paid to date, the company has now returned more than $1.25 million to local residents and community groups since its inception.

Community Forums

Community Bank® companies such as ours often act as a catalyst to identify projects and initiatives that will benefit their local community. These projects may be small, large, one-off or on-going and are often carried out in conjunction with other local community groups and/or local, state or federal government.

The inaugural Lindfield Community Forum was launched in September 2012 as a Lindfield **Community Bank**® Branch initiative.

A committee comprising more than 25 local residents and business owners is now working within a project called Support Lindfield to identify innovative ideas for the design of an innovative multi-purpose car park/community facility in Lindfield.

Our Turramurra **Community Bank**® Branch is planning to launch a Turramurra Community Forum event later this year.

Youth Observer program

Your directors are also continuing to invest significant time and effort in the development of the youth of our community via our highly-acclaimed Youth Observer program which provides an opportunity for year 11 students from Turramurra and Killara High Schools to gain exposure and insights into the running of a public company.

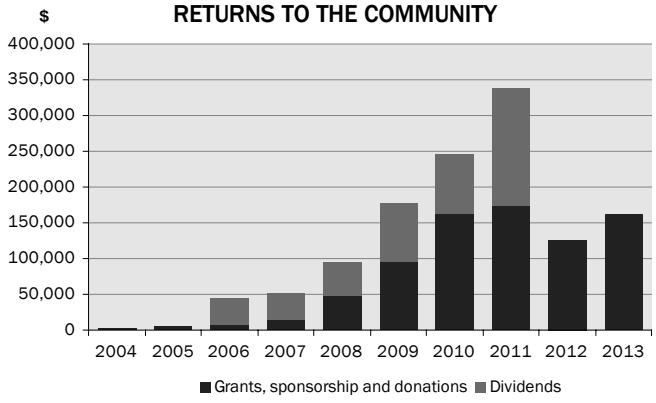
As an integral part of this program, our Youth Observers attend all of our board meetings as well as all of our business and social functions and community events.

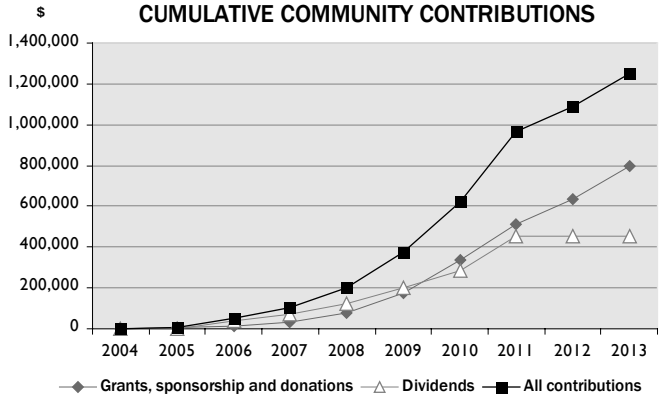
Our Youth Observer Program also encourages and helps to prepare our participants to serve their community on a voluntary basis in the future and develops a strong sense of community spirit.

Our Youth Observers for 2013/14 are Chloe Long and Sumedh Kalra from Turramurra High School along with Andy French and Michael Reidy from Killara High School.

Each of these new Youth Observers has been provided with a tablet computer to enable them to manage meeting agendas and other information provided to them.

Our new Youth Observers have already gained significant business and community insights by their attendance at board meetings and their participation in the company's recent due diligence workshop associated with the renewal of our Turramurra Franchise Agreement.





Chairman David Langdon presents a 10th anniversary commemorative trophy to Turramurra Senior Branch Manager Denice Kelly

Outlook and aspirations

Whilst the directors have again budgeted for strong portfolio growth outcomes to be achieved by our Turramurra and Lindfield **Community Bank**® branches during 2013/14, the company's projected financial outcomes have been adversely impacted by the reduction in budgeted commission income.

Accordingly, the directors have undertaken a detailed review of all operating costs and our management of community investments.

By achieving the budgeted portfolio growth and the prudent management of our operating expenses and community investments, the company expects to achieve a modest net profit before tax from the combined operation of our Turramurra and Lindfield businesses during the 2013/14 financial year.

Acknowledging our staff

The 10th anniversary of the employment of our Senior Branch Manager Denice Kelly was celebrated by a morning tea event conducted in our Turramurra **Community Bank**® Branch on 12 August 2013.

This event was attended by current and former staff members, Bendigo Bank executives, directors and representatives from several other **Community Bank**® companies.

Denice and her Turramurra team have continued to deliver excellent customer service and produce outstanding results. They do this by providing local residents, traders and businesses with professional and friendly face-to-face banking and other financial services which are highly valued and appreciated by our community.

Turramurra **Community Bank**® Branch has frequently received Bendigo Bank Sydney Metro Region awards for insurance sales successes and recently achieved a 'Most successful branch in NSW' award associated with a state-wide Bendigo Bank insurance sales campaign.

Our Lindfield Branch Manager Warren Dwyer and his team have also achieved many successes in their first full year of operations and have delighted their customers with their professional and friendly service.

I sincerely thank and congratulate Denice and Warren along with all members of their excellent and close-knit teams for their passion and commitment to servicing the needs of our customers, and for the many new milestones that they have personally and collectively achieved during another successful year.

2013 Youth Observers Andy French and Michael Reidy from Killara High School, and Sumedh Kalra and Chloe Long from Turramurra High School

Chairman's report continued

Directors' contribution

As in recent years, the directors and Branch Managers have met on a monthly basis, with the exception of December, to plan and monitor the operations of our expanded and increasingly complex business.

We also conducted our annual Strategic Planning Meeting during February 2013 to which our staff were all invited and which was extended this year to encompass two full days. This year's meeting focussed on maximising the growth opportunities across our Ku-ring-gai geography along with other strategic initiatives. The meeting also assisted in the establishment of our budgets, plans and strategic imperatives and priorities for the 2013/14 financial year.

We were delighted to welcome Dina Coppel and Nirmal Hansra as new directors in June 2013. Dina has more than 20 years' experience of successful strategy development and implementation as an entrepreneur, manager and advisor as well as bringing governance and Board experience. Nirmal is a Chartered Accountant with more than 30 years' experience in executive business management roles and six years as a professional non-executive director and active member of Board committees.

We also welcomed David Pegley as a new director in August 2013. David brings 15 years' experience in the financial services industry in Australia and NZ including managed services, technology and logistics at CEO and other senior executive levels.

Michael Cross resigned from the board during December 2012 having made a significant contribution to the success of the company, initially as a Lindfield Steering Committee Member for two years and subsequently as the convenor of the board's Lindfield Business Development Committee.

Bill Nevill and Monika Stelzner also resigned from the board during August 2013 having each made significant personal contributions to the success of the company as Lindfield Steering Committee members and continuing advocates for our Turramurra and Lindfield **Community Bank®** branches along with other Board committee involvement and participation.

We thank Michael, Bill and Monika for their individual and collective contributions to the success of the company as long-serving directors.

I also once again extend my sincere thanks to each and every one of our past and continuing volunteer directors, along with our Company Secretary/ Bookkeeper/Share Registrar Julie Fidler for the time, expertise and energy that they have contributed, both individually and collectively.

It is particularly noteworthy that Julie has performed the Company Secretary role brilliantly since the company was incorporated in December 2002.

I also thank our Marketing Consultant David Hollott and Newsletter Editor Jenni Wray for their important contributions to the effectiveness of our innovative marketing and business development initiatives and informative and widely-read newsletters.

The contributions of our directors and consultants have enabled the company to successfully manage our fast-growing businesses and in particular the first full year of operations of our Lindfield **Community Bank®** Branch and deliver another year of significant milestones during 2012/13.

These achievements have placed the company in a strong position to sustain its expansion and success during 2013/14 and beyond.

Bendigo and Adelaide Bank

Our relationship with Bendigo and Adelaide Bank Limited (the Bank) continues to strengthen and I again thank the NSW/ACT Manager Phil Jones, our Regional Manager Alex Hughes, Regional Operations Manager Tracey Avolio and their now Sydney CBD-based NSW State Office colleagues for the counsel, expertise and assistance provided to our staff and directors throughout the past 12 months.

It is also pleasing that the Bank continues to be rated 'A' by all three of the world's leading credit rating agencies and remains one of only a few banks in the world to have received a rating upgrade since the advent of the Global Financial Crisis.

The Bank has recently announced a major project to design and develop a new vision and framework to replace Bendigo Bank's unique and proprietary **Community Bank®** model which has been operating since June 1998 and continues to be an integral part of Bendigo and Adelaide Bank's business model.

The attendance of more than 700 delegates representing almost 300 **Community Bank®** branches at the 2013 National **Community Bank®** Conference conducted in Brisbane is testimony to the continuing support for this model.

Conclusion

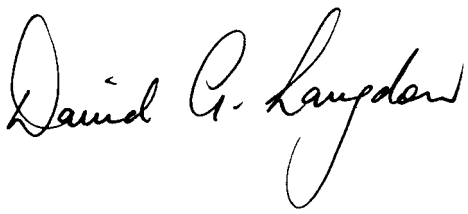
As we approach our 10th anniversary, our Turramurra **Community Bank®** Branch continues to be one of the best performing and most highly-regarded branches in the **Community Bank®** branch network across Australia and our Lindfield **Community Bank®** Branch has made a strong start and is gaining momentum.

I once again thank all of our 500+ shareholders, old and new, for your personal and continuing support of our Turramurra and Lindfield **Community Bank®** branches.

I again remind all readers that your support as a customer of our Turramurra and Lindfield **Community Bank®** branches remains invaluable in ensuring our future success as it is our customers' banking activity that ultimately determines the level of our future returns to the Ku-ring-gai community.

I look forward to seeing as many shareholders as possible at our 11th Annual General Meeting which will be conducted at the Lindfield Public School commencing at 7:00 pm on Tuesday 19 November 2013.

In the meantime, I once again thank you for your continuing support and encouragement.



David A. Langdon
Chairman

Turramurra Senior Branch Manager's report

Turramurra: a changed environment

In November 2012 the Turramurra **Community Bank®** Branch was fully refurbished to a 'Branch of the Future': an open plan where our staff are available to more freely engage with our customers, whether a simple transaction or a more complex banking requirement.

It is what our customers love about our **Community Bank®** branch: real people who care and understand their needs and offer appropriate solutions and by doing banking with us you are investing in your community.

The new branch has seen more of our existing customers doing business with us. Customers are our best advocates for referrals and our business growth was in excess of $20 million.

In-branch banking transactions are declining as more transactions go on line but at Turramurra our customer numbers increased, our deposit and loan portfolios increased and many of our customers took advantage of our specialised wealth management service and our side offering of insurance products.

Our staff have again provided excellent customer service and the branch is recognised within the Bendigo Bank network as a leader in New South Wales.

My personal thanks to our shareholders, customers, directors and staff for their continued enthusiasm for a **Community Bank®** branch whose primary purpose is not only to provide superior banking but also investment in the local community.

Denice Kelly
Senior Branch Manager
Turramurra **Community Bank®** Branch

Turramurra staff and Piggy celebrate Senior Branch Manager Denice Kelly's 10th anniversary: Gabi Phipps, Michele Ferris, Vikki Atkins, Diana Smith, Sharon Franke, Karen Chivas, Jodie Chilvers

Lindfield Branch Manager's report

Lindfield: proud of our achievements

As the Lindfield **Community Bank®** Branch comes up to the end of our second year of operation in October, we reflect on the last 12 months and can be proud of our achievements.

The Lindfield portfolio has nearly doubled in the last 12 months which is now over $40 million in loans and deposits. Combining this with the continual growth of Turramurra, the total portfolio is now over $260 million which represents a growth of close to 18%. This is a fantastic effort and all the staff across both Lindfield and Turramurra **Community Bank®** branches can be extremely proud of what has been achieved.

I would like to take the opportunity to thank and congratulate all of the volunteer directors on our board for their tireless work, commitment to the community and the manner in which they oversee the operation of Ku-ring-gai Financial Services Limited.

I would also like to thank and acknowledge the incredible staff – Brenda Naylor, Clive Onley and Rosalie Aldrich – for their support and outstanding customer service they provide to all of our customers on a daily basis. Customers that come into our branch comment on our friendly, welcoming environment; they can speak with staff members that understand their banking needs and offer solutions to those needs. The ongoing relationships we build provide an alternative to their experiences in previous banking relationships.

Building relationships with local community groups has been one of the keys to our growth and I would like to thank those community groups and members within those groups for their support. Those community groups see the direct benefit of support for the branch.

It is important to remind everyone that the more banking you do at the Lindfield and Turramurra **Community Bank®** branches, the more money is given back to the Ku-ring-gai community. Please take the time to come and see us to experience the great service that so many of our customers talk about.

I would like to acknowledge and thank the shareholders that are our customers, supporting us with your business.

It has been a successful year for Lindfield **Community Bank®** Branch and we can proud of our achievements.

Warren Dwyer
Branch Manager
Lindfield **Community Bank®** Branch

Lindfield staff: Clive Onley, Brenda Naylor, Warren Dwyer, Rosalie Aldrich

Bendigo and Adelaide Bank report

This year has marked two very significant milestones for our **Community Bank®** network, celebrating its 15th anniversary of operation while also reaching $100 million in community contributions. Both achievements could not have been accomplished without your ongoing support as shareholders and customers.

The **Community Bank®** network has grown considerably since it was first launched in 1998, in partnership with the people from the western Victorian farming towns of Rupanyup and Minyip. For these communities the **Community Bank®** model was seen as a way to restore branch banking services to the towns, after the last of the major banks closed its services. But in the years since, the **Community Bank®** model has become so much more.

The **Community Bank®** network has returned more than $20 million in contributions to local communities in this financial year alone. Our branches have been able to fund health services, sports programs, aged care facilities, education initiatives, community events and much more.

These contributions have come at a time of continued economic uncertainty, and shows the high level of support the **Community Bank®** model has in the communities in which it operates.

While our established branches grow their business at a healthy rate, demand for the model in other communities continues to be strong. There are currently another 40 **Community Bank®** sites in development, and 15 new branches are expected to open in the next 12 months.

At the end of the financial year 2012/13 the **Community Bank®** network had achieved the following:

- Returns to community – $102 million
- **Community Bank®** branches – 298
- **Community Bank®** branch staff – more than 1,460
- **Community Bank®** company Directors – 1,925
- Banking business – $24.46 billion
- Customers – 640,159
- Shareholders – 72,062
- Dividends paid to shareholders since inception – $30.88 million.

Almost 300 communities have now partnered with Bendigo and Adelaide Bank, to not only enhance banking services, but more importantly take the profits their banking business generates and reinvest it in local groups and projects that will ultimately strengthen their community. This $100 million goes to new community facilities, improved services, more opportunities for community engagement activities and generally speaking, a more prosperous society.

The communities we partner with also have access to Bendigo and Adelaide Bank's extensive range of other community building solutions including the Community Enterprise Foundation™ (philanthropic arm), Community Sector Banking (banking service for not-for-profit organisations), Generation Green™ (environment and sustainability initiative), Community Telco® (telecommunications solution), tertiary education scholarships and Community Enterprises that provide **Community Bank®** companies with further development options.

In Bendigo and Adelaide Bank, your **Community Bank®** company has a committed and strong partner and over the last financial year our company has continued its solid performance.

Bendigo and Adelaide Bank remains one of the few banks globally to be awarded an upgraded credit rating since the onset of the Global Financial Crisis. Our Bank continues to be rated at least "A-" by Standard & Poor's, Moody's and Fitch in recognition of its strong performance in the face of what continues to be a challenging economic environment.

While continued ratings affirmation is a welcome boost for the Bank and its partners, trading conditions are still difficult, with consumer confidence and demand for credit remaining low, and competition remaining very strong for retail deposits.

Not surprisingly, these factors continue to place pressure on the 50/50 margin share agreement between the Bank and our **Community Bank®** partners. As a result some **Community Bank®** companies are receiving much more than 50 per cent of revenue earned.

In April, the Bank took a further step to restore this balance, ensuring that the **Community Bank®** model produced a more appropriate balance of return for all stakeholders within this partnership model. The Bank will continue to review this remuneration model to ensure it is fair and equitable for all parties and is as resilient as possible to the fast changing economic environment.

It continues to be Bendigo and Adelaide Bank's vision to be Australia's leading customer-connected bank. We believe our strength comes from our focus on the success of our customers, people, partners and communities. We take a 100-year view of our business; we listen and respect every customer's choice, needs and objectives. We partner for sustainable long-term outcomes and aim to be relevant, connected and valued.

This is what drives each and every one of our people and we invite you as **Community Bank®** shareholders to support us as we work with your community to deliver on our goals and ensure our sustained and shared success.

As **Community Bank®** shareholders you are part of something special, a unique banking movement which has evolved into a whole new way of thinking about banking and the role it plays in modern society.

With the community's support, there really is no limit to what can be achieved under the **Community Bank®** model, and I look forward to seeing what the next 15 years will bring.

I thank you for your important support of your local **Community Bank®** branch.

Robert Musgrove
Executive Community Engagement

Directors' report

Your directors submit the financial report of the company for the financial year ended 30 June 2013.

Directors

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

DIRECTOR'S DETAILS — COMMITTEE RESPONSIBILITIES

David Andrew Langdon — Chairman
Retired — Ex officio member of all committees

David is a Fellow of the Australian Institute of Company Directors and a Member of the Australian Society of Certified Practicing Accountants and the Australian Computer Society. He is a former CEO and Managing Partner in a global consulting firm and more recently was employed as an Executive Recruitment Consultant. David is a founding director of Ku-ring-gai Financial Services Limited and has been Chairman of the company since its incorporation in 2002.

Ian Langford-Brown — Convenor, Finance & Audit Committee
Chartered Accountant — Governance Committee

During his professional career Ian specialised in the field of taxation as well as having a strong focus on issues impacting small and medium enterprises. He is a past President of The Taxation Institute. He was a senior partner in Deloitte's Tax Consulting Section and then became the Institute of Chartered Accountants first Tax Counsel where he was heavily involved in the Tax Reform process. Ian was the National Chairman of Scouts Australia for six years and is currently the Internal Auditor for the World Scout Bureau in Geneva with a world wide responsibility. Ian has contributed as a volunteer in many ways including as President and/or Treasurer of various organisations on the North Shore and is a Legatee.

Linda June McDonald — Convenor, HR & Operations Committee
Business Consultant
BSc, AFAIM, FAITD

Linda has 15 years' experience consulting to medium to large businesses in executive coaching, leadership development and team development. She works from her home in Lindfield where she has lived for 30 years. Until 1998, Linda held senior management roles in Human Resources and Human Resource & Organisation Development with large corporates in Australia and Canada. She is a Fellow and Life Member of the Australian Institute of Training & Development where she was recognised for her volunteer service over many years.

Allan Peter Millard — Convenor, Community Engagement Committee
Management Consultant — Marketing Committee
BE(Chem), MBA

Peter has spent over 30 years working in the Manufacturing and Industrial Services sectors and has been active in a number of industry associations. He has lived in Turramurra for over 20 years, during which he has been involved in community activities. Peter joined the Board in 2007.

Roman Zeno Tarnawsky — Convenor, Strategic Planning Committee
Management Consultant, retail marketing and logistics — Community Engagement Committee
GAICD, Grad.Dip.Mgmt. Admin, Dip Mech Engineering, Dip Civil Engineering

Roman has lived in Turramurra since 1980 and has been active in local resident groups and youth sailing programs. his 30 year career has provided experience in engineering, logistics and retail marketing, including franchising and business-to-business marketing.

Christopher Bradley Williamson — Marketing Committee
IT Business Owner — Community Engagement Committee (YOs)
BCom (Economics and Business Law)

Chris brings business development and IT experience to the Board, as well as a Gen Y perspective. After working in finance and IT whilst studying for his Bachelor of Commerce majoring in Economics and Business Law at Macquarie University, Chris became a partner in an established software firm and a marketing agency, both based in Pymble.

DIRECTOR'S DETAILS

Dina Rebecca Teitler Coppel *(appointed 24 June 2013)*
Strategy Consultant
B.Comm(Finance), LLB, GAICD

COMMITTEE RESPONSIBILITIES
Governance Committee
Community Engagement Committee

Dina has 20 years' experience of successful strategy development and implementation as an entrepreneur, manager and advisor. She brings strong financial analysis, governance and legal experience to the company and is keen to develop sound business processes and drive revenue growth. Dina has lived in Ku-ring-gai for most of her life with her family participating in local schools and sports.

Nirmal Singh Hansra *(appointed 24 June 2013)*
Non-executive Company Director
M.Comm(Business Management). FAICD, FCA, FCPA.

Finance & Audit Committee
Strategic Planning Committee

Nirmal brings to the company over 7 years' corporate advisory and Non-executive Director experience, and 35 years' executive experience in business management as CFO/Finance Director of leading Australian and international companies. Nirmal has considerable financial, audit, corporate governance and risk management skills, as well as strong business networks and contacts. In addition Nirmal speaks several Asian languages and adds multicultural understanding.

William Raymond Nevill *(26 August 2013)*
Retired

Marketing Committee
Community Engagement Committee

Bill is a graduate of the Australian Administrative Staff College, Mt. Eliza, and the International Marketing Institute of Australia. Whilst actively involved with several sporting clubs within the area, Bill followed a career for over forty years within the paper industry both within Australia and overseas, establishing manufacturing companies in both Indonesia and China together with their customer bases in North America, Europe and Australia. Now principally retired, Bill is the former Chairman of the Lindfield Community Bank® Branch Project Steering Committee.

Monika Stelzner *(resigned 27 August 2013)*
Accountant
BBus, MBA, CPA

Finance Committee
Community Engagement Committee

Monika is a CPA and BAS Service Provider in public practice specialising in management accounting. She has worked with SMEs (small and medium enterprises) for over 20 years and has been a Chamber of Commerce Director. She studied for her Bachelor of Business at UTS majoring in Accounting and Communications and obtained a Master of Business Administration from Deakin University.

David Lawrence Pegley *(appointed 28 August 2013)*
BSc(Hons), MBA, FAICD, JP

Strategic Planning Committee

David has had 15 years' experience in banking and financial services in Australia and New Zealand followed by 10 years in managed services, technology and logistics. He brings considerable experience and expertise in strategic and profitable business growth, stakeholder engagement, and change management in complex multi-party business and regulatory environments.

Michael James Cross *(resigned 17 December 2012)*
Pharmacist

Directors were in office for this entire year unless otherwise stated.
No director has material interests in contracts or proposed contracts with the company.

Company Secretary

The company secretary is Julie Fidler. Julie was appointed to the position of secretary at the first meeting of directors of the company on 11 December 2002. Julie has worked in business administration for over 30 years and is also a Company Secretary of Atlantic Gold NL, a company listed on the Australian Stock Exchange.

Directors' report continued

Principal activities

The principal activities of the company during the course of the financial year were in facilitating **Community Bank®** services under management rights to operate two franchised branches of Bendigo and Adelaide Bank Limited in Turramurra and Lindfield, New South Wales.

There has been no significant change in the nature of these activities during the year.

Operating results

The company's revenue increased by 14% to $2 million, reflecting continued growth in its business operations. It expanded its total banking portfolio by 18%, the number of customers by 10% and the number of customer accounts by 9%. During the year, the company lifted its community contributions by 29% to $161,000 and net assets increased by a further 3% to $1.4 million including refurbishment of the Turramurra premises.

The profit/(loss) of the company for the financial year after provision for income tax was $42,343 (2012: loss $94,751).

Remuneration report

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

There are no employees who are directly accountable and have responsibility for the strategic direction and operational management of the entity. There are therefore no specified executives whose remuneration requires disclosure.

Dividends

No dividends were declared or paid for the current year.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

William Raymond Nevill (26 August 2013) and Monika Stelzner (27 August 2013) resigned as directors. David Lawrence Pegley was appointed a director on 28 August 2013.

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

Likely developments

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

Environmental regulation

The company is not subject to any significant environmental regulation.

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.

Indemnification and insurance of directors and officers

The company has indemnified all directors, officers and managers in respect of liabilities to other persons (other than the company or related body corporate) that may arise from their position as directors, officers or managers 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:

	NUMBER OF BOARD MEETINGS		COMMUNITY ENGAGEMENT COMMITTEE	
	ELIGIBLE	ATTENDED	ELIGIBLE	ATTENDED
David Andrew Langdon	11	10	11	6
Ian Langford-Brown	11	10	–	–
Linda June McDonald	11	10	–	–
Allan Peter Millard	11	10	11	11
Roman Zeno Tarnawsky	11	7	11	5
Christopher Bradley Williamson	11	11	–	2
Dina Rebecca Teitler Coppel *(appointed 24 June 2013)*	1	1	–	–
Nirmal Singh Hansra *(appointed 24 June 2013)*	1	1	–	–
David Lawrence Pegley *(appointed 28 August 2013)*	–	–	–	–
Michael James Cross *(resigned 17 December 2012)*	5	5	–	–
William Raymond Nevill *(resigned 26 August 2013)*	11	8	11	8
Monika Stelzner *(resigned 27 August 2013)*	11	10	7	5

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.

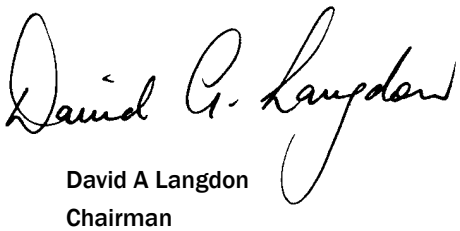
The directors are satisfied that the provision of non-audit services by the auditor, as set out in the notes did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- 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 undermines 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 Turramurra, New South Wales on 23 September 2013.



David A Langdon
Chairman

Ian Langford-Brown
Director

Auditor's independence declaration

AFS
Partners in success
Chartered Accountants

Lead auditor's independence declaration under section 307C of the *Corporations Act 2001* to the directors of Ku-ring-gai Financial Services Limited

I declare, that to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2013 there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit
- any applicable code of professional conduct in relation to the audit.

David Hutchings
Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550

Dated: 23 September 2013

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

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TAXATION • AUDIT • BUSINESS SERVICES • FINANCIAL PLANNING

Statement of comprehensive income
for the year ended 30 June 2013

	NOTES	2013 $	2012 $
Revenues from ordinary activities	4	2,007,049	1,753,758
Employee benefits expense		(866,180)	(882,882)
Charitable donations, sponsorships, advertising and promotion		(273,199)	(188,099)
Occupancy and associated costs		(271,523)	(260,566)
Systems costs		(172,078)	(124,851)
Depreciation and amortisation expense	5	(87,992)	(209,853)
Finance costs	5	(2,874)	(3,746)
General administration expenses		(268,248)	(236,332)
Profit/(loss) before income tax benefit/(expense)		**64,955**	**(152,571)**
Income tax benefit/(expense)	6	(22,612)	57,820
Profit/(loss) after income tax benefit/(expense)		**42,343**	**(94,751)**
Total comprehensive income for the year		**42,343**	**(94,751)**
		¢	¢
Earnings/(loss) per share (cents per share)			
– basic for profit/(loss) for the year	23	1.88	(4.47)

The accompanying notes form part of these financial statements.

Balance sheet
as at 30 June 2013

	NOTES	2013 $	2012 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	869,119	949,738
Trade and other receivables	8	155,968	153,342
Current tax asset	11	62,534	57,292
Total Current Assets		**1,087,621**	**1,160,372**
Non-Current Assets			
Property, plant and equipment	9	424,248	332,425
Intangible assets	10	56,581	86,354
Deferred tax assets	11	56,124	78,738
Total Non-Current Assets		**536,953**	**497,517**
Total Assets		**1,624,574**	**1,657,889**
LIABILITIES			
Current Liabilities			
Trade and other payables	12	57,791	130,677
Borrowings	13	8,546	12,895
Provisions	14	108,550	109,460
Total Current Liabilities		**174,887**	**253,032**
Non-Current Liabilities			
Borrowings	13	20,888	28,241
Provisions	14	20,930	11,090
Total Non-Current Liabilities		**41,818**	**39,331**
Total Liabilities		**216,705**	**292,363**
Net Assets		**1,407,869**	**1,365,526**
EQUITY			
Issued capital	15	1,258,525	1,258,525
Retained earnings	16	149,344	107,001
Total Equity		**1,407,869**	**1,365,526**

The accompanying notes form part of these financial statements.

Statement of changes in equity
for the year ended 30 June 2013

	ISSUED CAPITAL $	RETAINED EARNINGS $	TOTAL EQUITY $
Balance at 1 July 2011	**871,964**	**201,752**	**1,073,716**
Total comprehensive income for the year	–	(94,751)	(94,751)
Transactions with owners in their capacity as owners:			
Shares issued during period	402,765	–	402,765
Costs of issuing shares	(16,204)	–	(16,204)
Dividends provided for or paid	–	–	–
Balance at 30 June 2012	**1,258,525**	**107,001**	**1,365,526**
Balance at 1 July 2012	**1,258,525**	**107,001**	**1,365,526**
Total comprehensive income for the year	–	42,343	42,343
Transactions with owners in their capacity as owners:			
Shares issued during period	–	–	–
Costs of issuing shares	–	–	–
Dividends provided for or paid	–	–	–
Balance at 30 June 2013	**1,258,525**	**149,344**	**1,407,869**

The accompanying notes form part of these financial statements.

Statement of cash flows
for the year ended 30 June 2013

	NOTES	2013 $	2012 $
Cash Flows From Operating Activities			
Receipts from customers		2,166,824	1,871,433
Payments to suppliers and employees		(2,089,459)	(1,756,597)
Interest received		35,719	42,271
Interest paid		(2,874)	(3,746)
Income taxes paid		(5,240)	(70,137)
Net cash provided by operating activities	17	**104,970**	**83,224**
Cash Flows From Investing Activities			
Payments for property, plant and equipment		(173,887)	(280,295)
Payments for intangible assets		–	(80,000)
Net cash used in investing activities		**(173,887)**	**(360,295)**
Cash Flows From Financing Activities			
Proceeds from issues of shares		–	402,765
Payment for share issue costs		–	(28,204)
Repayment of borrowings		(11,702)	(9,149)
Net cash used in financing activities		**(11,702)**	**365,412**
Net increase in cash held		**(80,619)**	**88,341**
Cash and cash equivalents at the beginning of the financial year		949,738	861,397
Cash and cash equivalents at the end of the financial year	**7(a)**	**869,119**	**949,738**

The accompanying notes form part of these financial statements.

Notes to the financial statements
for the year ended 30 June 2013

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.

Adoption of new and revised Accounting Standards

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. Amendments made to AASB 101 Presentation of Financial Statements effective 1 July 2012 now require the statement of comprehensive income to show the items of comprehensive income grouped into those that are not permitted to be reclassified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met. This amendment has not affected the presentation of the statement of comprehensive income of the company in the current period and is not likely to affect future periods.

The company has not elected to apply any pronouncements before their mandatory operative date in the annual reporting period beginning 1 July 2012.

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**® branches at Turramurra and Lindfield, New South Wales.

The branches operate as franchises 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**® branches on behalf of Bendigo and Adelaide Bank Limited, however all transactions with customers conducted through the **Community Bank**® branches are effectively conducted between the customers and Bendigo and Adelaide Bank Limited.

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

1 Summary of significant accounting policies continued

***a) Basis of preparation** continued*

Bendigo Bank 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 in relation to:

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

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

b) Revenue

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

Revenue calculation

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

The second source of revenue is commission paid by Bendigo and Adelaide Bank Limited on the other products and services provided through the company (i.e. 'commission business'). The commission is currently payable on various specified products and services, including insurance, financial planning, common fund, Sandhurst Select, superannuation, commercial loan referrals, products referred by Rural Bank, leasing referrals, fixed loans and certain term deposits (>90 days). The amount of commission payable can be varied in accordance with the Franchise Agreement (which, in some cases, permits commissions to be varied at the discretion of Bendigo and Adelaide Bank Limited). This discretion has been exercised on several occasions previously. For example in February 2011 and February 2013 Bendigo and Adelaide Bank Limited reduced commissions on two core banking products to ensure a more even distribution of income between Bendigo and Adelaide Bank Limited and its **Community Bank**® partners. The revenue share model is subject to regular review to ensure that the interests of Bendigo and Adelaide Bank Limited and **Community Bank**® companies remain balanced.

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

c) Income tax

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

d) Employee entitlements

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

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

e) *Cash and cash equivalents*

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

1 Summary of significant accounting policies continued

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 is reviewed at the end of each annual reporting period.

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

- leasehold improvements 10 years
- plant and equipment 2.5 - 40 years
- furniture and fittings 4 - 40 years

h) Intangibles

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

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

i) Payment terms

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

j) Borrowings

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

k) Financial instruments

Recognition and initial measurement

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

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

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

Classification and Subsequent Measurement
(i) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.
(ii) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the entity's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.
(iii) Financial liabilities
Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Impairment
At each reporting date, the entity assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the statement of 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 of other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

n) Contributed equity
Ordinary shares are recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

1 Summary of significant accounting policies continued

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.

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 monitors the return on capital and the level of dividends to shareholders. Capital is represented by total equity as recorded in the balance sheet.

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

(i) the distribution limit is the greater of:
   (a) 20% of the profit or funds of the franchisee otherwise available for distribution to shareholders in that 12 month period; and
   (b) subject to the availability of distributable profits, the relevant rate of return multiplied by the average level of share capital of the franchisee over that 12 month period; and

(ii) the relevant rate of return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period plus 5%.

The board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the year ended 30 June 2013 can be seen in the statement of comprehensive income.

There were no changes in the company's approach to capital management during the year.

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.

3 Critical accounting estimates and judgements continued

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

Estimation of the useful lives of assets

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

Impairment of assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

	2013	2012
	$	$
4 Revenue from ordinary activities		
Operating activities:		
– margin income	1,287,673	1,093,699
– services commissions	670,388	613,100
– other revenue	14,157	8,100
Total revenue from operating activities	**1,972,218**	**1,714,899**
Non-operating activities:		
– interest received	34,831	38,859
Total revenue from non-operating activities	**34,831**	**38,859**
Total revenues from ordinary activities	**2,007,049**	**1,753,758**

5 Expenses		
Depreciation of non-current assets:		
– motor vehicle	7,516	7,682
– furniture and equipment	5,995	7,330
– computer software	4,576	3,435
– leasehold improvements	40,133	27,968
– write down of leasehold improvements [1]	–	102,806
– write down of leasehold improvements [2]	–	34,849
Amortisation of non-current assets:		
– franchise agreement	4,295	3,795
– franchise renewal fee	25,477	21,988
	87,992	**209,853**

(1) Written down values of leasehold improvements at both Turramurra and Lindfield premises, previously depreciated over 40 years at the allowable building allowance rate, were revised to reflect their anticipated useful life of 10 years, using the straight line method.

(2) In May 2012, the directors committed to a new fitout of the Turramurra premises to the standard of equipment and fittings appropriate to current banking practices and consistent with Lindfield branch facilities. The new fitout was completed during October 2012. The remaining written down value of the existing Turramurra fitout, less carrying value for the four months from July to October 2012 ($41,725 less $6,876) was expensed in the previous period. The final write down of the remaining $6,876 is included in leasehold improvements depreciation expense in the current period.

Finance costs:		
– interest paid	2,874	3,746
Bad debts	103	1,907

		2013	2012
		$	$
6 Income tax expense/(credit)			
The components of tax expense comprise:			
– Current tax		–	19,272
– Future income tax benefit attributed to losses		(22,696)	–
– Movement in deferred tax		45,308	(63,351)
– Over provision of tax in the prior period		–	(13,741)
		22,612	**(57,820)**
The prima facie tax on profit/(loss) from ordinary activities before income tax is reconciled to the income tax expense/(credit) as follows:			
Operating profit/(loss)		64,955	(152,571)
Prima facie tax on profit from ordinary activities at 30%		19,487	(45,771)
Add tax effect of:			
– non-deductible expenses		4,800	3,603
– timing difference expenses		(45,072)	63,351
– other deductible expenses		(1,911)	(1,911)
		(22,696)	**19,272**
Movement in deferred tax	11	45,308	(63,351)
Over provision of tax in the prior period		–	(13,741)
		22,612	**(57,820)**
7 Cash and cash equivalents			
Cash at bank and on hand		91,404	272,832
Term deposits		777,715	676,906
		869,119	**949,738**
The above figures are reconciled to cash at the end of the financial year as shown in the statement of cashflows as follows:			
7(a) Reconciliation of cash			
Cash at bank and on hand		91,404	272,832
Term deposits		777,715	676,906
		869,119	**949,738**
8 Trade and other receivables			
Trade receivables		143,427	139,994
Other receivables and accruals		7,180	8,068
Prepayments		5,361	5,280
		155,968	**153,342**

	2013	2012
	$	$
9 Property, plant and equipment		
Office furniture and equipment		
At cost	94,878	93,074
Less accumulated depreciation	(31,705)	(24,742)
	63,173	**68,332**
Leasehold improvements		
At cost	384,985	465,639
Less accumulated depreciation	(50,424)	(244,151)
	334,561	**221,488**
Motor vehicle		
At cost	28,474	61,287
Less accumulated depreciation	(1,960)	(18,682)
	26,514	**42,605**
Total written down amount	**424,248**	**332,425**
Movements in carrying amounts:		
Office furniture and equipment		
Carrying amount at beginning	68,332	27,563
Additions	13,196	51,534
Disposals	(7,703)	–
Less: depreciation expense	(10,652)	(10,765)
Carrying amount at end	**63,173**	**68,332**
Leasehold improvements		
Carrying amount at beginning	221,488	158,351
Additions	155,025	229,960
Disposals	(1,820)	(1,141)
Less: depreciation expense	(40,132)	(28,027)
Write down of carrying value [1]	–	(102,806)
Expense carrying value [2]	–	(34,849)
Carrying amount at end	**334,561**	**221,488**
Motor vehicle		
Carrying amount at beginning	42,605	50,287
Additions	28,474	–
Disposals	(37,049)	–
Less: depreciation expense	(7,516)	(7,682)
Carrying amount at end	**26,514**	**42,605**
Total written down amount	**424,248**	**332,425**

(1) Written down values of leasehold improvements at both Turramurra and Lindfield premises, previously depreciated over 40 years at the allowable building allowance rate, were revised to reflect their anticipated useful life of 10 years, using the straight line method.

(2) In May 2012, the directors committed to a new fitout of the Turramurra premises to the standard of equipment and fittings appropriate to current banking practices and consistent with Lindfield branch facilities. The new fitout was completed during October 2012. The remaining written down value of the existing Turramurra fitout, less carrying value for the four months from July to October 2012 ($41,725 less $6,876) was expensed in the previous period. The final write down of the remaining $6,876 is included in leasehold improvements depreciation expense in the current period.

	2013 $	2012 $
10 Intangible assets		
Franchise fee		
At cost	81,477	81,477
Less: accumulated amortisation	(74,212)	(69,916)
	7,265	**11,561**
Renewal processing fee		
At cost	57,385	57,385
Less: accumulated amortisation	(53,559)	(42,082)
	3,826	**15,303**
Franchise establishment fee		
At cost	70,000	70,000
Less: accumulated amortisation	(24,510)	(10,510)
	45,490	**59,490**
Total written down amount	**56,581**	**86,354**
11 Tax		
Current:		
Income tax refundable	62,534	57,292
Non-current:		
Deferred tax asset		
– Accruals	2,505	2,160
– Employee provisions	28,314	36,164
– Tax losses carried forward	22,695	–
– Property, plant and equipment	6,072	44,118
	59,586	82,442
Deferred tax liability		
– Accruals	1,854	2,120
– Deductible prepayments	1,608	1,584
	3,462	3,704
Net deferred tax asset	**56,124**	**78,738**
Movement in deferred tax charged to statement of comprehensive income	**45,308**	**(63,351)**
12 Trade and other payables		
Trade creditors	48,214	122,205
Other creditors and accruals	9,577	8,472
	57,791	**130,677**

		2013	2012
		$	$
13 Borrowings			
Current:			
Lease liability	18	8,546	12,895
Non-current:			
Lease liability	18	20,888	28,241
14 Provisions			
Current:			
Provision for annual leave		43,310	32,360
Provision for long service leave		30,140	–
Provision for annual bonus		35,100	45,500
		108,550	**109,460**
Non-Current:			
Provision for long service leave		20,930	11,090
15 Contributed equity			
2,251,085 ordinary shares fully paid (2012: 2,251,085)		1,326,925	1,326,925
Less: equity raising expenses (Turramurra)		(40,196)	(40,196)
Less: equity raising expenses (Lindfield)		(28,204)	(28,204)
		1,258,525	**1,258,525**

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

15 Contributed equity continued

(b) *Dividends*

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

(c) *Transfer*

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

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

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 343. As at the date of this report, the company had 518 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.

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.

	2013	2012
	$	$
16 Retained earnings		
Balance at the beginning of the financial year	107,001	201,752
Net profit/(loss) from ordinary activities after income tax	42,343	(94,751)
Balance at the end of the financial year	**149,344**	**107,001**

17 Statement of cashflows

Reconciliation of profit/(loss) from ordinary activities after tax to net cash provided by operating activities		
Profit/(loss) from ordinary activities after income tax	42,343	(94,751)
Non cash items:		
– depreciation	58,220	184,070
– amortisation	29,772	25,783
– loss on disposal of non-current assets	23,845	–
Changes in assets and liabilities:		
– (increase)/decrease in receivables	(2,626)	(3,941)
– (increase)/decrease in other assets	17,372	(120,643)
– increase/(decrease) in payables	(72,886)	67,750
– increase/(decrease) in provisions	8,930	32,270
– increase/(decrease) in current tax liabilities	–	(7,314)
Net cashflows provided by operating activities	**104,970**	**83,224**

18 Leases

Finance lease commitments

Payable — minimum lease payments		
— not later than 12 months	8,546	12,895
— between 12 months and 5 years	23,968	32,684
— greater than 5 years	–	–
Minimum lease payments	32,514	45,579
Less future finance charges	(3,080)	(4,443)
Present value of minimum lease payments	**29,434**	**41,136**

The hire purchase of a motor vehicle, which commenced in December 2012, is a three year hire purchase. Interest is recognised at an average rate of 5.80%.

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	131,000	220,000
— between 12 months and 5 years	49,000	180,000
— greater than 5 years	–	–
	180,000	**400,000**

Each premises lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance.

	2013	2012
	$	$
19 Auditors' remuneration		
Amounts received or due and receivable by the auditor of the company for:		
– audit and review services	7,210	3,900
– non-audit services	1,715	7,680
	8,925	**11,580**

20 Director and related party disclosures

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

David Andrew Langdon
Ian Langford-Brown
Linda June McDonald
Allan Peter Millard
Roman Zeno Tarnawsky
Christopher Bradley Williamson
Dina Rebecca Teitler Coppel *(appointed 24 June 2013)*
Nirmal Singh Hansra *(appointed 24 June 2013)*
David Lawrence Pegley *(appointed 28 August 2013)*
Michael James Cross *(resigned 17 December 2012)*
William Raymond Nevill *(resigned 26 August 2013)*
Monika Stelzner *(resigned 27 August 2013)*

No director or related entity has entered into a material contract with the company. No director's fees have been paid as the positions are held on a voluntary basis.

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 related parties

Christopher Williamson is a director of Like a Boss Group Pty Ltd which provided website design, website hosting and graphic design services to the company during the financial year to the value of $2,603 (2012: $nil).

Directors' shareholdings

	NO.	NO.
David Andrew Langdon	30,002	30,002
Ian Langford-Brown	3,000	3,000
Linda June McDonald	6,000	6,000
Allan Peter Millard	1,000	1,000
Roman Zeno Tarnawsky	2,000	2,000
Christopher Bradley Williamson	–	–
Dina Rebecca Teitler Coppel *(appointed 24 June 2013)*	–	–
Nirmal Singh Hansra *(appointed 24 June 2013)*	–	–
David Lawrence Pegley *(appointed 28 August 2013)*	–	–
Michael James Cross *(resigned 17 December 2012)*	10,000	10,000
William Raymond Nevill *(resigned 26 August 2013)*	1,000	1,000
Monika Stelzner *(resigned 27 August 2013)*	10,000	10,000

		2013	2012
		$	$

21 Dividends paid or provided

No dividends were declared or paid for the previous year and the directors recommend that no dividend be paid for the current year.

a) Franking account balance

Franking credits available for subsequent reporting periods are:			
– franking account balance as at the end of the financial year	21(b)	232,651	227,408
– franking credits/(debits) that will arise from payments of income tax payable as at the end of the financial year		(62,534)	(57,292)
– 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 reporting periods		170,117	170,116
– 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		**170,117**	**170,116**

b) Reconciliation of franking account balance

Reconciliation of franking account balance as at the end of the financial year		
Opening balance	227,408	157,270
– franking credits from the payment of income tax instalment during the year	89,503	102,054
– franking debits from the refund of income tax following lodgement of income tax return	(84,260)	(31,916)
– franking debits from the payment of fully franked dividends	–	–
Closing balance	232,651	227,408

22 Key management personnel disclosures

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

There are no executives within the company whose remuneration is required to be disclosed.

23 Earnings per share

(a) Profit/(loss) attributable to the ordinary equity holders of the company used in calculating earnings per share	42,343	(94,751)
	NO.	NO.
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	2,251,085	2,118,384

24 Events occurring after the balance sheet date

William Raymond Nevill (26 August 2013) and Monika Stelzner (27 August 2013) resigned as directors. David Lawrence Pegley was appointed a director on 28 August 2013.

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

25 Contingent liabilities

During the period the company entered into a heads of agreement to sponsor the purchase of a motor vehicle for the Ku-ring-gai Community Workshop 'The Shed' Inc. Under the agreement the company will be responsible for the repayments of the motor vehicle finance, consisting of 48 monthly instalments of $434.02, totalling $20,832.96. Repayments commenced in October 2012.

In the event that 'The Shed' ceases to operate during the term of the finance arrangements (48 months):

- the company's financial support for the vehicle will cease immediately, with no further obligations to 'The Shed' in respect of the motor vehicle from that date.
- the company will assume ownership of the motor vehicle immediately.

In the event that 'The Shed' disposes of the motor vehicle during the term of the finance arrangements (48 months):

- the company's financial support for the vehicle will cease immediately, with no further obligations to 'The Shed' or the purchaser in respect of the motor vehicle.

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

26 Segment reporting

The economic entity operates in the service sector where it facilitates **Community Bank**® services in Turramurra and Lindfield, New South Wales pursuant to franchise agreements with Bendigo and Adelaide Bank Limited.

27 Registered office/Principal place of business

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

Registered office	Principal place of business
1273 Pacific Highway	1273 Pacific Highway
Turramurra NSW 2074	Turramurra NSW 2074

28 Financial instruments

Net fair values

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

Credit risk

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

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

Interest rate risk

FINANCIAL INSTRUMENT	FLOATING INTEREST RATE		FIXED INTEREST RATE MATURING IN						NON INTEREST BEARING		WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	
			1 YEAR OR LESS		OVER 1 TO 5 YEARS		OVER 5 YEARS					
	2013 $	2012 $	2013 $	2012 $	2013 $	2012 $	2013 $	2012 $	2013 $	2012 $	2013 $	2012 $
Financial assets												
Cash assets	91,004	272,432	777,715	676,906	–	–	–	–	400	400	3.83	4.31
Receivables	–	–	–	–	–	–	–	–	143,427	139,994	N/A	N/A
Financial liabilities												
Interest bearing liabilities	–	–	8,546	12,895	20,888	28,241	–	–	–	–	7.01	8.02
Payables	–	–	–	–	–	–	–	–	43,214	117,204	N/A	N/A

Directors' declaration

In accordance with a resolution of the directors of Ku-ring-gai Financial Services 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 2013 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 AASB174 *Related Party Disclosures* and the Corporations Regulations 2001.

This declaration is made in accordance with a resolution of the board of directors.

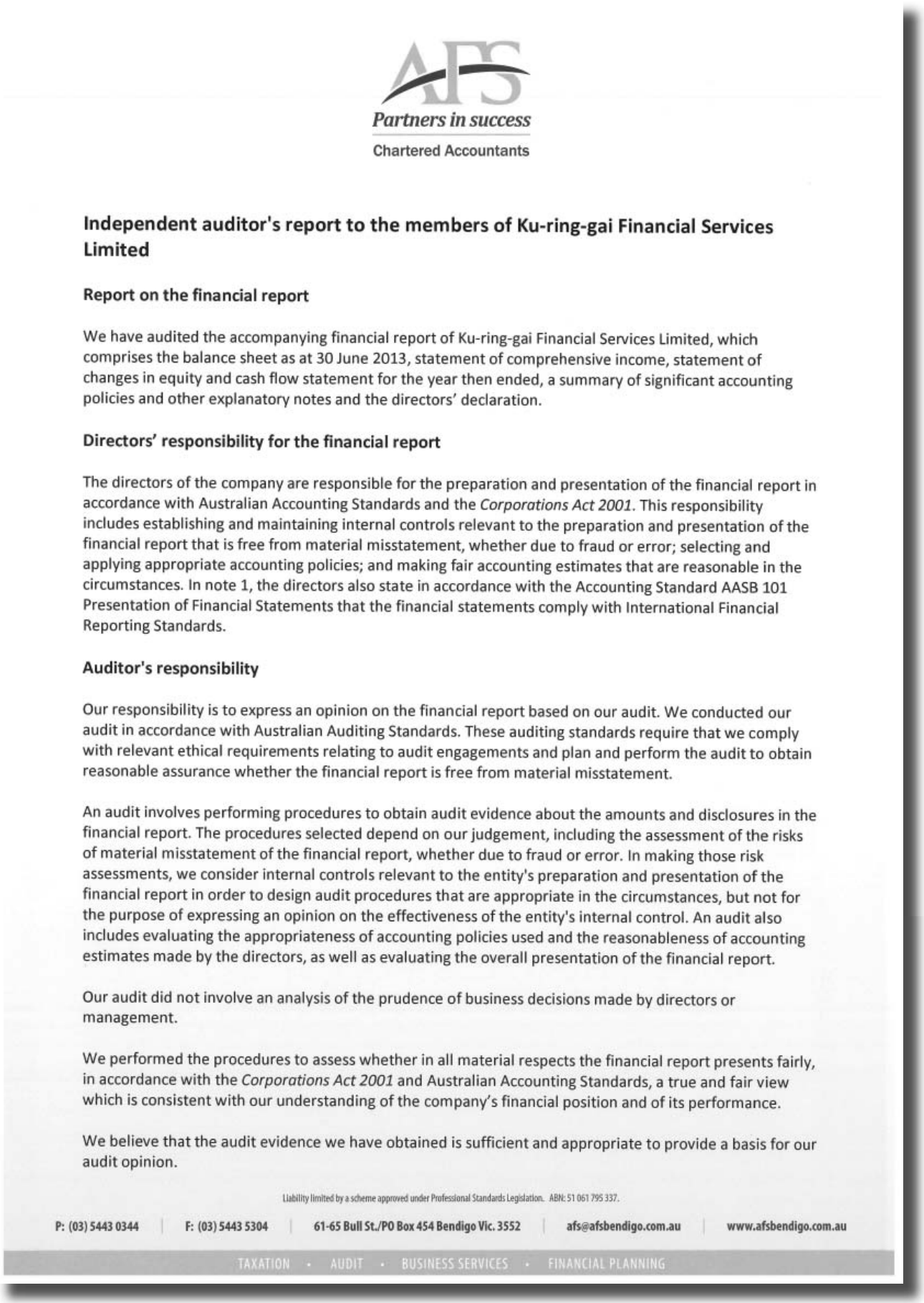
David A Langdon
Chairman

Ian Langford-Brown
Director

Signed on 23 September 2013

Independent audit report

to the members of Ku-ring-gai Financial Services Limited



AFS
Partners in success
Chartered Accountants

Independent auditor's report to the members of Ku-ring-gai Financial Services Limited

Report on the financial report

We have audited the accompanying financial report of Ku-ring-gai Financial Services Limited, which comprises the balance sheet as at 30 June 2013, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

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

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These auditing standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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

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

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Independent audit report continued

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written auditor's independence declaration, a copy of which is included in the directors' report.

Auditor's opinion on the financial report

In our opinion:

1) The financial report of Ku-ring-gai Financial Services Limited is in accordance with the *Corporations Act 2001* including giving a true and fair view of the company's financial position as at 30 June 2013 and of its financial performance and its cash flows for the year then ended and complying with Australian Accounting Standards and the Corporations Regulations 2001.

2) The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Ku-ring-gai Financial Services Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

David Hutchings
Andrew Frewin Stewart
61 Bull Street Bendigo Vic 3550

Dated: 23 September 2013

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