Kingsway **Community Bank®** Branch

annual report 2012

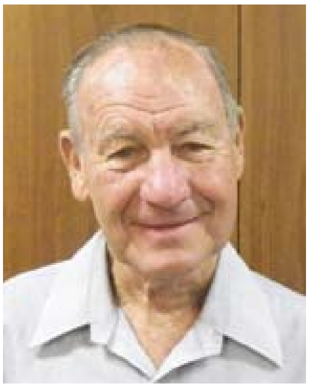
Kingsway Community
Financial Services Limited

ABN 48 104 124 638

Contents

Chairman's report

For year ending 30 June 2012



This is my ninth year as Chairman and what an experience those years have been. Our well established **Community Bank®** branch is in a very convenient location. It has a good functional interior and is a pleasant place to do business, which is enhanced by our great team.

Banking business has been tough over the past two years and our team works hard to maintain market share, whilst being able to continue to put support and funds back into worthwhile community projects. We have now given back to the Community in excess of $110,000 and with dividends to shareholders this sum total over $300,000.

Staff

Our staff all need recognition for their pleasant and helpful attitude. All have attended excellent training courses provided by the Bendigo and Adelaide Bank and are now showing the benefits of this training by being proficient at their jobs with fantastic work ethics, and growing the branch business.

Board

I owe a huge thank you to each of our Board members. We have functioned the whole year with one position vacant. This work has been covered by the other four Board members. It is becoming extremely difficult to recruit suitable people for Board positions, with the increasing workload. Once a month Board meetings are always extremely busy and we now meet an extra hour before the Board meeting to cope with the agenda.

The Annual National Conference held in Melbourne this year was a huge event with over 800 attending. Our Manager and one senior staff member attended as did four of the Board members. It was extremely informative and worthwhile conference.

Plans

We don't have any immediate intention of expanding although this is a regular item for consideration but the economic climate makes us very conservative. We have been able to pay a 7.5 cent dividend this year and have a healthy building fund in preparation for expansion when the occassion arises.

I have enjoyed being Chairman and being involved with the development of the **Community Bank®** concept in this region. It is a great concept and I thank all shareholders for their support as well as our staff, we have a great team. Thank you to everyone I have met and been involved with.

WIlliam Meredith
Chairman

Manager's report

For year ending 30 June 2012

Dear Shareholders,

During 2012 our business continues to face many challenges. As a result of which has seen our business contract by some 13% over the corresponding period. Market volatility, low consumer confidence, and movements towards savings as opposed to lending have been contributing factors.

I'm pleased to be able to report on another year for Kingsway Community Financial Services Limited, our community, our shareholders and our customers.

Our total business as at 30 June 2012 sat at $91 million represented by:

- 3356 active accounts,
- $34 million of deposit funds,
- $57 million of loan funds.

These results are indicative of the current competitive climate and are representative of:

- Sustained competition for depositors dollars being driven by expensive wholesale funding costs,
- Consumer reluctance to increase borrowings,
- Consumers paying down debt,
- Complete branch staff turnaround, which presents its own challenges of training and time for growth in current positions.

We have a competitive product offering, through our partner Bendigo and Adelaide Bank, and offer further enhancements with introduction of new products. There are system enhancements in the way of Basel II and the Advanced Accreditation, which the Bank is currently working on, to assist with capital efficiencies. We are also increasing our marketing and advertising presence both nationally and locally.

The challenges will continue into 2013, and competition will remain tough, however my team is committed to increasing our business and value to our customers, shareholders and community alike, and need the support of all stakeholders to ensure we meet and overcome these for our continued success.

I would like to take this opportunity to thank all of our new team, Michelle, Jason, Jim, Elizabeth and Jenna, who joined our company late last year and are making a tremendous effort to re-connect with our customers and provide exceptional service.

My sincere thanks to our Chairman, Bill Meredith, and the Board of Directors for their continued support, enthusiasm and commitment which all ensure the success of our company into the future.

Suza Todorovska
Branch Manager

Bendigo and Adelaide Bank report

For year ending 30 June 2012

Thanks to your support as shareholders the **Community Bank®** network has achieved a significant milestone this year, contributing more than $80 million to support the communities these unique companies operate within.

This figure was almost unimaginable when the **Community Bank®** model was first launched in 1998, in partnership with the people from the small Victorian wheat 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. However, in the years since the **Community Bank®** model has become so much more.

In the past financial year a further 20 **Community Bank®** branches have opened, this growth is in-line with our forecast and consistent with what we have seen in recent years. Demand for the model remains strong and there are currently another 32 **Community Bank®** sites in development, with many more conversations happening with communities Australia wide.

At the end of the financial year 2011/12 the **Community Bank®** network had achieved the following:

- Returns to community – $80 million
- **Community Bank®** branches – 295
- **Community Bank®** branch staff – more than 1,400
- **Community Bank®** branch Directors – 1,905
- Volume footings – $21.75 billion
- Customers – 500,000
- Shareholders – 71,197
- Dividends paid to shareholders – $28.8 million

Almost 300 communities have now partnered with Bendigo and Adelaide Bank, so they can not only enhance banking services, but more importantly aggregate the profits their banking business generates and reinvest it in local groups and projects that will ultimately strengthen their community.

In the past 14 years we have witnessed the **Community Bank®** network's returns to communities grow exponentially each year, with $470,000 returned within the first five years, $8.15 million within the first eight and $22.58 million by the end of the first decade of operation.

Today that figure is an astonishing $80 million and with the continued growth and popularity of the **Community Bank®** model, returns should top $100 million by the end of 2013. These dollars add up 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 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), sponsorships, 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 also seen much success.

Bendigo and Adelaide Bank report (continued)

Last December, our Bank joined the ranks of Australia's A-rated banks following an upgrade announced by Standard & Poor's. Its decision to raise our long-term rating from BBB+ to A– means the Bank (and its **Community Bank®** partners) are now rated 'A' by all three of the world's leading credit rating agencies. This is a huge boost to the Bank and will allow us to access new funding opportunities. It will also enable our group to service supporters who were precluded from banking with us because we were not A rated.

The rating upgrade is a welcome boost for the Bank and its partners at a time when funding is expensive and likely to remain so, margins have been eroded across the industry, credit growth is sluggish at best and subsequently, the profitability of banks remains under pressure.

Not surprisingly, these factors continue to place pressure on our Bank's margin and as **Community Bank®** margin share is still in part based on fixed trails, this is continuing to reflect a skew in margin share between the Bank and its **Community Bank®** partners.

We've been working with the **Community Bank®** network to take action to reduce this imbalance (which is in favour of the **Community Bank®** partners) and see the share of revenue on core banking products closely aligned to the key principal of 50/50 revenue share. Recent market developments are challenging this goal, but the Bank and its partners remain committed to addressing this.

It's 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 our partners 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.

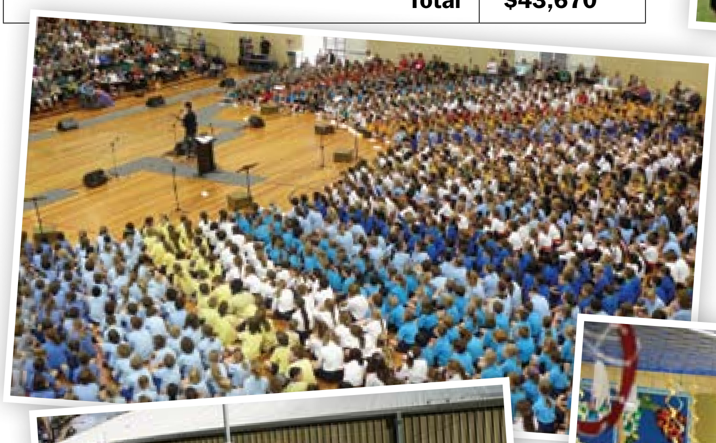
We thank you all for the part you play in driving this success.

Russell Jenkins
Executive Customer and Community

2011/12 Recipients of support

Wanneroo Primary School	$1,500
North Breach Athletics	$1,000
Perth Blue Wings Baseball Club	$1,500
Padbury Netball Club	$3,000
Northside Grandparents Support Group Inc	$5,000
Westcoast Songfest	$5,000
Wanneroo Basketball Association	$5,500
Aimee & Ashleigh Littlejohn	$1,000
Kingsley Woodvale Cricket Club	$1,250
Madeley Primary School	$8,000
Wanneroo Idol	$7,500
Wanneroo Football Club	$1,250
Telethon	$500
WA Special Needs Xmas Party	$330
Safety House	$590
Blue Bird Events	$250
Landsdale Junior Cricket Club	$500
Total	**$43,670**




Clockwise from top: North Beach Athletics; Wanneroo Show Idol; Blue Wings Baseball; WA Indoor Netball; Madeley Primary School; Padbury Netball Club; Westcoast Songfest.

Dividends paid to shareholders

2009	2010	2011	2012
5 cents	7.5 cents	7.5 cents	7.5 cents
$38,750.45	$58,125.68	$58,125.68	$58,125.68

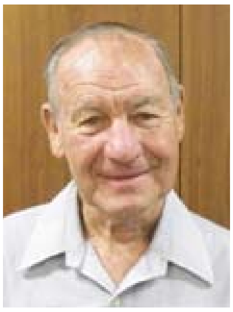
Directors' report

For the financial year ended 30 June 2012

Your Directors present their report, together with the financial statements of the company for the financial year ended 30 June 2012.

Directors

The names of Directors in office at any time during or since the end of the year are:



Name: **William Charles Meredith**

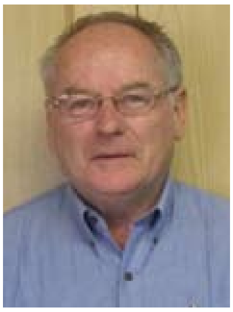
Position: Non-Executive Director I Chairperson

Occupation: Business Proprietor

Background Information: Bill has been the Chairman of Kingsway Community Financial Services Limited since its Incorporation. He is a licensed electrical contractor and dealer with over 56 years' experience as a business proprietor. Any spare time is spent pursuing his interest in boating and fishing.

Directorships held in other entities: NIL

Interest in shares and options: 11,206



Name: **Joseph James Hawkins J.P.**

Position: Non-Executive Director

Occupation: Business Proprietor

Background Information: Joe was a member of the original steering committee, set up to pursue the granting of a Bendigo franchise. He has a successful business involved in transport and associated activities. He is a long standing Rotarian.

Directorships held in other entities: Yes

Interest in shares and options: 11,501

Name: **Peter Michael Burns FCPA, FTIA, FNTAA**

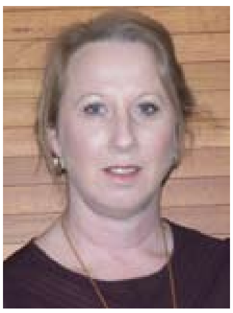
Position: Non-Executive Director/Company Secretary

Occupation: Certified Practising Accountant

Background Information: Peter is a Certified Practising Accountant, tax agent and company Auditor and uses this experience in the financial management and governance of the company.

Directorships held in other entities: NIL

Interest in shares and options: 5,000



Name: **Beverley Jane Errington**

Position: Non-Executive Director

Occupation: Bookkeeper I Administrator

Background Information: Beverley combines her work as the administrator and a Director of the company and is actively involved in the day to day activities of the company and the public.

Directorships held in other entities: NIL

Interest in shares and options: NIL

Directors (continued)

Name: **Peter John Newbound**

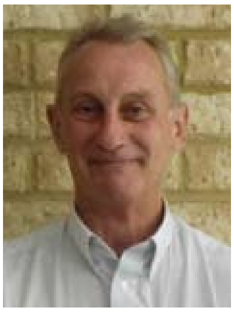
Position: Non-Executive Director

Occupation: Insurance Broker

Background Information: Peter is a registered general insurance broker with extensive industry experience. He is a past President of the Insurance Institute of Western Australia.

Directorships held in other entities: NIL

Interest in shares and options: 1,000



Name: **Ian Peter Newton**

Position: Non-Executive Director

Occupation: Business Manager

Background Information: Ian has resigned as a Director on 7 October 2011

Directorships held in other entities: NIL

Interest in shares and options: 8,000

Company Secretary

Name: Peter Michael Burns FCPA, FTIA, FNTAA

Background Information: Mr Peter Burns is a Certified Practising Accountant and a registered Company Auditor.

Directors meetings attended

During the financial year, 12 meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year were as follows:

Names of Directors	Directors' meetings	
	Number eligible to attend	Meeting attended
William Charles Meredith	12	12
Joseph James Hawkins	12	11
Peter Michael Burns	12	10
Beverley Jane Errington	12	12
Peter John Newbound	12	11
Ian Peter Newton (resigned 07/10/2011)	3	1

Principal activity and review of operations

The principal activity and focus of the company's operations during the year was the operation of a Branch of Bendigo and Adelaide Bank, pursuant to a franchise agreement.

Operating results

The profit of the company after providing for income tax amounted to $107,683 (2011: $213,241).

Dividends paid or recommended

The company paid dividend payments of $59,116 during the year and declared a dividend of $58,126 on the 22 June 2012.

Financial position

The net assets of the company have increased from $376,029 as at 30 June 2011 to $424,595 as at 30 June 2012, which is an improvement on prior year in spite of the difficult circumstances experienced.

The Directors believe the company is in a stable financial position.

Significant changes in 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 these financial statements.

After balance date events

No matters or circumstances have arisen since the end of the financial year that 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 financial years.

Future developments

Likely developments in the operations of the company and the expected results of those operations in future financial years have not been included in this report, as the inclusion of such information is likely to result in unreasonable prejudice to the company.

Options

No options over issued shares or interests in the company were granted to Directors or Executives during or since the end of the financial year and there were no options outstanding at the date of this report.

The Directors and Executive do not own any options over issued shares or interests in the company at the date of this report.

Indemnifying Officers or Auditor

Indemnities have been given, during and since the end of the financial year, for any persons who are or have been a Director or an Officer, but not an Auditor, of the company. The insurance contract prohibits disclosure of any details of the cover.

Environmental issues

The company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth, State or Territory.

Proceedings on behalf of company

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

The company was not a party to any such proceedings during the year.

Corporate governance

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

a) Director approval of operating budgets and monitoring of progress against these budgets;

b) Ongoing Director training; and

c) Monthly Director meetings to discuss performance and strategic plans

The company has not appointed a separate audit committee due to the size and nature of operations and the limited number of Board members. The normal functions and responsibilities of an audit committee have been assumed by the Board.

Non-audit services

The Board is satisfied that the provision of any non-audit services during the year is compatible with the general standard of independence for Auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did not compromise the external Auditor's independence for the following reasons:

- any non-audit services are reviewed and approved by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the Auditor; and
- the nature of any services provided do not compromise the general principles relating to Auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

No non-audit services were provided by the external Auditors during the year ended 30 June 2012.

Auditor's independence declaration

The lead Auditor's independence declaration under s 307C of the Corporations Act 2001 for the year ended 30 June 2012 is included within the financial statements.

This report of the Directors Is signed in accordance with a resolution of the Board of Directors.

Peter Burns
Director

Dated 26 September 2012

Auditor's independence declaration

RSM Bird Cameron Partners

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Kingsway Community Financial Services Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Rsm Bird Cameron Partners
RSM BIRD CAMERON PARTNERS

TUTU PHONG
Partner

Perth, WA
Dated: 26 September 2012

Financial statements

Statement of comprehensive income for the year ended 30 June 2012

	Note	2012 $	2011 $
Revenue	2	1,021,297	1,041,312
Employee benefits expense		(406,937)	(367,746)
Depreciation and amortisation expense		(19,256)	(33,321)
Finance costs		(4,305)	{63)
Other expenses	3	(483,116)	(426,941)
Profit before income tax		107,683	213,241
Income tax expense	4	–	–
Profit for the year		**107,683**	**213,241**
Other comprehensive income		–	–
Total comprehensive income for the year attributable to members		**107,683**	**213,241**

The accompanying notes form part of these financial statements.

Statement of financial position as at 30 June 2012

	Note	2012 $	2011 $
Current assets			
Cash and cash equivalents	6	424,170	374,359
Trade and other receivables	7	56,935	53,959
Other current assets	8	4,858	4,508
Total current assets		**485,963**	**432,826**
Non-current assets			
Plant and equipment	9	18,500	23,877
Intangible assets	10	24,000	36,000
Total non-current assets		**42,500**	**59,877**
Total assets		**528,463**	**492,703**
Current liabilities			
Trade and other payables	11	23,429	33,156
Short-term provisions	12	5,407	11,925
Other current liabilities	13	75,032	71,593
Total current liabilities		**103,868**	**116,674**
Total liabilities		**103,868**	**116,674**
Net assets		**424,595**	**376,029**
Equity			
Issued capital	14	775,009	775,009
Retained earnings/(accumulated losses)		(350,414)	(398,980)
Total equity		**424,595**	**376,029**

The accompanying notes form part of these financial statements.

Statement of changes in equity for the year ended 30 June 2012

	Share capital $	Accumulated losses $	Total $
Balance at 1 July 2010	775,009	(496,949)	278,060
Total comprehensive income for the year		213,241	213,241
Subtotal	**775,009**	**(283,710)**	**491,301**
Dividends paid or provided for		(115,271)	(115,271)
Balance at 30 June 2011	**775,009**	**(398,980)**	**376,029**
Balance at 1July 2011	775,009	(398,980)	376,029
Total comprehensive income for the year		107,683	107,683
Subtotal	**775,009**	**(291,297)**	**483,712**
Dividends paid or provided for		(59,117)	(59,117)
Balance at 30 June 2012	**775,009**	**(350,414)**	**424,595**

The accompanying notes form part of these financial statements.

Statement of cash flows
for the year ended 30 June 2012

	Note	2012 $	2011 $
Cash flows from operating activities			
Receipts from customers		992,424	1,060,814
Payments to suppliers and employees		(903,210)	(817,506)
Interest received		25,898	10,899
Borrowing cost paid		(4,305)	(63)
Net cash provided by operating activities	**15**	**110,807**	**254,144**
Cash flows from investing activities			
Purchase of plant and equipment		(1,879)	(19,495)
Purchase of intangible assets		–	–
Net cash used in investing activities		**(1,879)**	**(19,495)**
Cash flows from financing activities			
Dividends paid		(59,117)	(58,126)
Net cash used in financing activities		**(59,117)**	**(58,126)**
Net increase in cash held		53,569	176,523
Cash and cash equivalents at beginning of financial year		374,359	197,836
Cash and cash equivalents at end of financial year	**6**	**424,170**	**374,359**

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2012

Note 1. Statement of significant accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the company as an individual entity. The company is a public company, incorporated and domiciled in Australia.

Australian Accounting Standards set out accounting policies that the Australian Accounting Standards Board (AASB) has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs modified where applicable by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The financial statements were authorised for issue on 26 September 2012 by the Directors of the company.

(a) Income tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Note 1. Statement of significant accounting policies (continued)

(a) Income tax (continued)

Current tax assets and liabilities are offset where a legally enforceable right of set off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(b) Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred.

Depreciation

The depreciable amount of all plant and equipment is depreciated on a straight line basis over their useful lives to the company commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation rate
Plant and equipment	10% - 30%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of comprehensive income.

(c) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in 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 year.

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.

Note 1. Statement of significant accounting policies (continued)

(c) Leases (continued)

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(d) Financial instruments

Recognition and initial measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the company becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. 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 company no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Classification and subsequent measurement

i. Financial assets at fair value through profit or loss

   Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

ii. 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.

iii. 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 company's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

iv. Available-for-sale financial assets

   Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Note 1. Statement of significant accounting policies (continued)

(d) Financial instruments (continued)

Classification and subsequent measurement (continued)

v. Financial liabilities

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

Derivative instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the statement of comprehensive income unless they are designated as hedges.

The company does not hold any derivative instruments.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all un securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

Financial guarantees

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition. The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with MSB 118: Revenue. Where the company gives guarantees in exchange for a fee, revenue is recognised under MSB 118.

The company has not issued any financial guarantees.

(e) Impairment of assets

At each reporting date, the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(f) Intangibles franchise fee

The franchise fee paid by the company pursuant to a Franchise Agreement with Bendigo and Adelaide Bank is being amortised over the initial five (5) years period of the agreement, being the period of expected economic benefits of the franchise fee.

Note 1. Statement of significant accounting policies (continued)

(g) Employee benefits

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.

(h) Provisions

Provisions are recognised when the company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(i) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

U) Revenue and other income

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

(k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use of sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

(l) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(m) Comparative figures

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

(n) Critical accounting estimates and judgments

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company.

Note 1. Statement of significant accounting policies (continued)

(n) Critical accounting estimates and judgments (continued)

Key estimates - Impairment

The company assesses impairment at each reporting date by evaluating conditions specific to the company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

No impairment has been recognised in respect of intangibles for the year ended 30 June 2012. Should the projected turnover figures be materially outside of budgeted figures incorporated in value in-use calculations, an impairment loss would be recognised up to the maximum carrying value of intangibles at 30 June 2012 amounting to $24,000.

(o) New accounting standards for application in future periods

At the date of this financial report the following standards, which may impact the entity in the period of initial application, have been issued but are not yet effective:

Reference	Title	Summary	Application date (financial years beginning)	Expected Impact
MSB9	Financial Instruments	Replaces the requirements of MSB 139 for the classification and measurement of financial assets. This is the result of the first part of Phase 1 of the IASB's project to replace IAS 39	1 January 2013	No expected impact on the entity.

The company has decided against early adoption of these standards.

	2012 $	2011 $
Note 2. Revenue		
Franchise margin income	995,400	1,030,413
Interest revenue	25,897	10,899
	1,021,297	**1,041,312**
Note 3. Expenses		
Advertising and marketing	10,430	1,126
ATM leasing and running costs	17,932	17,903
Bad debts	422	7,414
Community sponsorship and donations	45,045	26,002
Freight and postage	19,627	18,917
Insurance	14,279	15,579
IT leasing and running costs	25,397	26,352

	2012 $	2011 $
Note 3. Expenses (continued)		
Occupancy running costs	28,649	23,625
Printing and stationery	15,426	14,725
Rental on operating lease	142,225	132,017
Other operating expenses	155,762	136,556
	475,194	**420,216**
Remuneration of the Auditors of the company Audit services	7,922	6,725
Other services	–	–
	7,922	**6,725**

Note 4. Income tax expense

No income tax is payable by the company as it has recouped tax losses previously brought to account for income tax purposes.

a. The prima facie tax on profit before income tax is reconciled to the income tax as follows:

Prima facie tax payable on profit before income tax at 30% (2011: 30%)	32,305	63,972
Add:		
Tax effect of:		
• non-deductible depreciation and amortisation	–	–
• other non-allowable items	–	–
Less:		
Tax effect of:		
• recoupment of prior year tax losses not previously brought to account	(32,305)	(63,972)
• other allowable items	–	–
Income tax attributable to the company	**–**	**–**

At reporting date, the company had tax losses of $41,155 (2011: $141,570) which are available to offset future years' taxable income.

The future income tax benefit of these tax losses is $12,347 (2011: $42,471). This benefit has not been recognised as an asset in the statement of financial position as there is not a high probability of its realisation. The benefits will only be obtained if:

i. the company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss to be realised;

ii. the company continues to comply with the conditions for deductibility imposed by the law; and

iii. no changes in tax legislation adversely affect the company in realising the benefit from the deductions for the losses.

Note 5. Key management personnel compensation

a. Names and positions

Name	**Position**
William Meredith	Chairman
Joseph Hawkins	Non-Executive Director
Peter Burns	Non-Executive Director
Beverley Errington	Non-Executive Director
Peter Newbound	Non-Executive Director

b. Remuneration of key management positions

The total remuneration paid to Directors of the company during the year is $59,000 (2011: $59,000).

c. Shareholdings

Number of ordinary shares held by key management personnel

	Ordinary shares			
2012 **Directors**	**Balance at beginning of period**	**Purchased during the period**	**Other charges**	**Balance at end of period**
William Meredith	11,206	–	–	11,206
Joseph Hawkins	11,501	–	–	11,501
Peter Burns	5,000	–	–	5,000
Peter Newbound	5,000	–	(4,000)	1,000
ian Newton	8,000	–	–	8,000
	40,707	**–**	**(4,000)**	**36,707**

	2012 **$**	**2011** **$**
Note 6. Cash and cash equivalents		
Cash at bank and in hand	23,885	44,673
Short term bank deposit	400,285	329,686
	424,170	**374,359**

The effective interest rate for short term bank deposits was 5.49% (2011: 5.51%); these deposits have an average maturity of 80 days.

	2012 $	2011 $

Note 6. Cash and cash equivalents (continued)

Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:		
Cash and cash equivalents	424,170	374,359
	424,170	**374,359**

Note 7. Trade and other receivables

Trade debtors	**56,935**	**53,959**

a. Provision for impairment of receivables

Current trade and term receivables are non-interest bearing loans and generally on 30-day terms. Non-current trade and term receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is an objective evidence that an individual trade or term receivable is impaired. These amounts will be included in the other expenses item of the statement of comprehensive income.

There is no provision for impairment of receivables.

Note 8. Other assets

Current

Prepayments and accrued income	**4,858**	**4,508**

Note 9. Plant and equipment

Cost	230,493	228,614
Accumulated depreciation	(211,993)	(204,737)
	18,500	**23,877**
Movement in carrying amount		
Balance at the beginning of the year	23,877	25,703
Additions	1,879	19,495
Depreciation expense	(7,256)	(21,321)
Carrying amount at the end of the year	**18,500**	**23,877**

	2012 $	2011 $

Note 10. Intangible assets

Franchise fee

Cost	67,268	67,268
Accumulated amortisation	(43,268)	(31,268)
	24,000	**36,000**

Pursuant to a five year franchise agreement with Bendigo and Adelaide Bank, the company operates a branch of Bendigo and Adelaide Bank, providing a core range of banking products and services.

Note 11. Trade and other payables

Superannuation payable

Trade creditors and accruals	2,498	2,586
GST payable	16,889	28,700
PAYG withheld	4,042	1,870
	23,429	**33,156**

Note 12. Provisions

Current

Provision for employee entitlements	**5,407**	**11,925**
Number of employees at year end	**4**	**4**

Note 13. Other liabilities

Accrued expenses	15,088	13,467
Dividend payable	59,944	58,126
	75,032	**71,593**

Note 14. Equity

775,009 (2011: 775,009) fully paid ordinary shares	**775,009**	**775,009**

Note 15. Cash flow information

a. Reconciliation of cash flow from operations with profit after tax

	2012 $	2011 $
Profit after tax	107,683	213,241
Depreciation and amortisation	19,256	33,321
Movement in assets and liabilities		
Receivables	(2,976)	30,401
Other assets	(350)	4,524
Payables	(9,727)	(68,742)
Other current liabilities	3,439	64,939
Provisions	(6,518)	(23,540)
Net cash provided by operating Activities	**110,807**	**254,144**

b. Credit Standby Arrangement and Loan Facilities

The company has a bank overdraft facility amounting to $200,000 (2011: $200,000). This may be terminated at any time at the option of the bank. At 30 June 2012, this facility was not used (2011 $nil). Interest rates are variable.

Note 16. Related party transactions

Burns & Baker Accountants Pty Ltd, a firm of which Peter Burns was a Director, was paid $20,975 during the financial year ended 30 June 2012 (2011: $15,836) for accounting and taxation services provided. These fees were charged at normal commercial rates.

Note 17. Leasing commitments

Non cancellable operating lease commitment contracted for but not capitalised in the financial statements

	2012 $	2011 $
Payable		
Not longer than 1 year	241,250	153,042
Longer than 1 year but not longer than 5 years	180,181	259,388
	421,431	**412,430**

	2012 $	2011 $

Note 18. Other expenditure commitments

ATM Licence fees

	2012 $	2011 $
Payable		
Not longer than 1 year	8,296	8,295
Longer than 1 year but not longer than 5 years	11,753	20,049
	20049	**28,344**

Note 19. Dividends

Distributions paid

	2012 $	2011 $
Final unfranked ordinary dividend of 7.5c (2011: 7.5c) cents per share	58,126	58,126
	58,126	**58,126**

Note 20. Financial risk management

The company's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans, bills and leases.

The Directors' overall risk management strategy seeks to assist the company in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

a. Financial risk management policies

Risk management policies are approved and reviewed by the Board of Directors on a regular basis. These include the credit risk policies and future cash flow requirements.

The main purpose of non-derivative financial instruments is to raise finance for company operations.

The company does not have any derivative instruments at 30 June 2012.

b. Financial risk exposures and management

The main risks the company is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

i. Interest rate risk

   Interest rate risk is managed with a mixture of fixed and floating rate debt.

Iii. Liquidity risk

   The company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

iv. Credit risk

   The maximum exposure to credit risk, excluding the value of any collateral or other security, at reporting date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

   There are no material amounts of collateral held as security at 30 June 2012.

Note 20. Financial risk management (continued)

b. Financial risk exposures and management (continued)

iv. Credit risk (continued)

The company does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the company.

Credit risk is managed reviewed regularly by the Board of Directors. It arises from exposures to customers as well as through deposits with financial institutions.

The Board of Directors monitors credit risk by actively assessing the rating quality and liquidity of counter parties:

- all potential customers are rated for credit worthiness taking into account their size, market position and financial standing; and
- customers that do not meet the company's strict credit policies may only purchase in cash or using recognised credit cards.

The trade receivables balances at 30 June 2012 and 30 June 2011 do not include any counterparties with external credit ratings. Customers are assessed for credit worthiness using the criteria detailed above.

c. Financial instrument composition and maturity analysis

The table below reflects the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the statement of financial position.

2012	Weighted average effective interest rate	Variable	Fixed		Non interest bearing	Total
		Floating interest rate	Within 1 year	Within 1 to 5 years		
Financial assets						
Cash and cash equivalents	1.23%	22,066	–	–	–	22,066
Short term deposits	5.49%	–	404,898	–	–	404,898
Loans and receivables		–	–	–	56,935	56,935
Total financial assets		**22,066**	**404,898**	**–**	**56,935**	**483,899**
Financial liability						
Trade and other payables		–	–	–	38,517	38,517
Total financial liabilities		**–**	**–**	**–**	**38,517**	**38,517**

Note 20. Financial risk management (continued)

c. Financial instrument composition and maturity analysis (continued)

2011	Weighted average effective interest rate	Variable	Fixed		Non interest bearing	Total
		Floating interest rate	Within 1 year	Within 1 to 5 years		
Financial assets						
Cash and cash equivalents	0.07%	43,682	–	–	–	43,682
Short term deposits	5.51%	–	330,677	–	–	330,677
Loans and receivables		–	–	–	53,959	53,959
Total financial assets		**43,682**	**330,677**	**–**	**53,959**	**428,318**
Financial liability						
Trade and other payables		–	–	–	46,623	46,623
Total financial liabilities		**–**	**–**	**–**	**46,623**	**46,623**

	2012 $	2011 $
Trade and sundry payables are expected to be paid as followed:		
Less than 6 months	**38,517**	**46,623**

d. Net fair values

The net fair values of investments have been valued at the quoted market bid price at reporting date adjusted for transaction costs expected to be incurred. For other assets and other liabilities the net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised form other than investments. Financial assets where the carrying amount exceeds net fair values have not been written down as the company intends to hold these assets to maturity.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to the financial statements.

Fair values are materially in line with carrying values.

e. Sensitivity analysis

i. Interest rate risk

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

Note 20. Financial risk management (continued)

e. Sensitivity analysis (continued)

ii. Interest rate sensitivity analysis

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

2012	Carrying amount $	-2%		+2%	
		Profit $	Equity $	Profit $	Equity $
Financial assets					
Cash and cash equivalents	424 ,170	(8,483)	(8,483)	8,483	8,483

2011	Carrying amount $	-2%		+2%	
		Profit $	Equity $	Profit $	Equity $
Financial assets					
Cash and cash equivalents	374,359	(7,487)	(7,487)	7,487	7,487

Note 21. Operating segments

Types of products and services by segment

The company operates in the financial services sector as a branch of Bendigo and Adelaide Bank in Western Australia.

Major customers

The company operates under the terms of a franchise agreement with Bendigo and Adelaide Bank, which accounts for all of the franchise margin income.

Note 22. Events after the reporting date

No circumstances have arisen since the end of the financial year that 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 subsequent financial years.

Note 23. Contingent liabilities and contingent assets

There were no contingent liabilities or contingent assets at the reporting date.

Note 24. Tax

Deferred tax assets

	2012 $	2011 $
Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out below:		
Provisions	1,622	3,578
Accrued expenses	4,526	4,040
Prepaid expenses	(73)	(1,352)
Franchise fee	(7,200)	(10,800)
Tax losses: operating losses	12,347	42,471
	11,222	**37,937**

Note 25. Economic dependency- Bendigo and Adelaide Bank

The company has entered into franchise agreement with Bendigo and Adelaide Bank that governs the management of the **Community Bank®** branches at Kingsway, Western Australia.

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

All deposits are made with Bendigo and Adelaide Bank, and all personal and investment products are products of Bendigo and Adelaide Bank, 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, o increasing or changing the terms of an existing debt owed to Bendigo and Adelaide Bank, must be approved by Bendigo Bank. All credit transactions are made with Bendigo and Adelaide Bank, and all credit products are products of Bendigo and Adelaide Bank.

Bendigo and Adelaide 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 advice in relation to:

- Advice and assistance in relation to the design, layout and fit out of the **Community Bank®** branches;
- 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.

Note 26. company details

The registered office and principal place of business of the company is:

Suite 1, 2 Prindiville Drive,
Wangara WA 6065

Directors' declaration

The Directors of the Company declare that:

1. the accompanying financial statements and notes are in accordance with the Corporations Act 2001 and:
    a. comply with Australian Accounting Standards; and
    b. give a true and fair view of the financial position as at 30 June 2012 and of the performance for the year ended on that date of the Company;
2. the financial statements and notes thereto also comply with International Financial Reporting Standards, as disclosed In Note 1; and
3. in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration Is made In accordance with a resolution of the Board of Directors.

Peter Burns
Director

Dated 26 September 2012

RSM Bird Cameron Partners

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
KINGSWAY COMMUNITY FINANCIAL SERVICES LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Kingsway Community Financial Services Limited ("the company"), which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with 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 about 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 the auditor's 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, the auditor considers internal control relevant to the entity's preparation and fair 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.

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

RSM Bird Cameron Partners

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Kingsway Community Financial Services Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Kingsway Community Financial Services Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

RSM Bird Cameron Partners

RSM BIRD CAMERON PARTNERS

TUTU PHONG
Partner

Perth, WA
Dated: 28 September 2012

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Bendigo Bank

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