



Knox Community
Financial Services Ltd

ABN 88 093 823 708

ANNUAL REPORT 2013

Fern Tree Gully **Community Bank**[®] Branch
Rowville **Community Bank**[®] Branch

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Chairman's report

For year ending 30 June 2013

The Scoresby Agency of our company was officially opened in April by Cr Nicole Seymour and was attended by business operators from the local area. The agency is situated within the offices of First National Real Estate located in the Scoresby Village precinct. Our partners in this venture are Don Stevenson and Adrian Ferris, Directors of First National, who have been very enthusiastic about the whole project.

John SurrIDGE must be recognised for his continual involvement over several months while he negotiated a very successful outcome for the company. Marisa Dickins, Regional Manager was instrumental in ensuring that the necessary approvals to enable the opening of the agency were obtained without undue delay. Tina Leslie is to be thanked for the amount of time she has spent training and supervising the agency staff and her dedication in attending to the agency's requirements on a regular basis outside her normal working hours.

The first three months of operation has been satisfactory and I suggest would have been far better had we been able to approval for suitable signage erected to advertise the agency's location.

Late last year the Manager of Rowville **Community Bank**[®] Branch resigned. Mick Spruhan, a Manager with 13 years **Community Bank**[®] network experience was appointed to that position. We welcome Mick and look forward to his active participation in the future growth of the company.

The appointment of Mick should enable Rowville **Community Bank**[®] Branch to move towards the company's expected potential for the area.

Again the last 12 months have continued to be challenging for all Australian banks. Our profit will be lower than budget, however in the current environment our results are still encouraging.

The introduction of Phase two of 'Restoring the Balance' by the Bendigo and Adelaide Bank which is the reduction of fees payable to us on a number of items has reduced our profit.

The continued support of the people of Fern Tree Gully, Rowville and Scoresby has contributed to a satisfactory 2012/13 year with growth within the company continuing resulting in our total business reaching \$209.5 million, an increase of \$8.5 million while the number of accounts reduced to 10,550 accounts.

The company's outlook for the coming financial year remains difficult to predict, with significant market volatility and revenue challenges facing all banks.

Knox Community Financial Services Ltd remains committed to your local community and have been proud to be involved providing grants and sponsorship to our community partners. The total amount the Fern Tree Gully and Rowville **Community Bank**[®] branches have contributed and pledged to local organisations since the company's inception is just under \$2 million.

While continuing to provide assistance in the form of grants and sponsorship we have been able to continue to pay dividends to our shareholders.

Your Directors have recommended 17.5 cents per share dividend be paid for the 2012/13 financial year.

If the current lack of confidence across the business sector continues it will be extremely difficult for this level of dividend to be maintained in the coming years.

The company's ongoing success and continuing support of our community would not have been possible without the continuing hard work of our management team and their staff! John SurrIDGE, Senior Group Manager has ensured the business at both branches and the agency is conducted in a professional, efficient and courteous manner. Tina Leslie and Mick Spruhan have demonstrated a commitment to the bank and the local community.

Chairman's report (continued)

In these difficult economic times the requirement for our management team and staff to be available and attend work related meetings after hours continues to increase. Under their leadership the staff continues to demonstrate the word 'community' by their friendly and courteous manner when dealing with you, the customer.

Your Directors continue to work diligently. While your **Community Bank**[®] branches have continued to grow so have the time requirements expected from Directors. Their role in ensuring the overall management responsibilities while also planning for the future requires additional responsibilities.

Thank you to the many shareholders and clients who continue to support the **Community Bank**[®] concept. With the continued support of all involved in our **Community Bank**[®] branches I am hopeful our business will grow further and benefit our community.



Hurtle Lupton O.A.M., J.P.
Chairman

General Manager's report

For year ending 30 June 2013

As you will see in the various reports we went past the \$200 million in retained business this year, not a bad effort for a business that the other banks said would not succeed.

We have not only succeeded due to the support of the communities we operate in, we have grown and so has the amount of capital that has remained in your hands.

This is what **Community Bank**[®] concept is about, keeping the capital in the communities that generate it by supporting community groups, employing locals and paying dividends to those who generously put in the funds to start us up without a promise of any return.

You will all no doubt agree your faith in funding us has been and continues to be returned to you.

We had another milestone this year with the opening of our Scoresby Agency, it is early days with business being slow but we are supporting the agents to make sure this is another income stream of our business to take us into the future.

We were lucky that the owners of First National Stevenson Ferris, Don and Adrian were willing to partner us, who along with their staff they are extremely supportive of the **Community Bank**[®] model and are promoting us at every opportunity.

During the year we also had a new Manager at Rowville **Community Bank**[®] Branch, Mick Spruhan start with us, Mick is extremely experienced in the **Community Bank**[®] network having previously Managed two successful branches, we welcome him and believe he will take our Rowville **Community Bank**[®] Branch to greater heights.

You will see our profit was down this year due to our expenditure in marketing, by marketing our brand we believe it will bring in additional business to us that will repay the amount we have spent many times.

We are always exploring options to gain market share.

One of our strengths is we have been able to partner with community groups who promote us and by doing this they benefit from our sponsorship/grants.

We continue to maintain our community support of the various sporting clubs, schools, youth groups, aged care, aged services, charitable groups and many more of those who are an essential part of our community.

When we assist these community groups it makes staff and management proud to work for your **Community Bank**[®] branches when we know that we are assisting our community prosper.

As shareholders you can proudly recommend our branches to others with the confidence they will receive service and attention second to none, also their banking will help us to continue to maintain funding to our community partners.

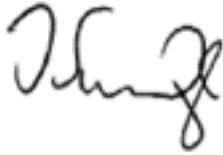
I would like to thank the staff, who are led by Tina Leslie and Mick Spruhan for their commitment to your **Community Bank**[®] branches.

They go above and beyond what they are paid for to attend local functions and promote the branches at every opportunity.

I also pass on my thanks to Bendigo and Adelaide Bank, especially our Regional Manager Marisa Dickins; their continued partnership enables us to offer banking products that are extremely competitive to our customers and shareholders.

General Manager's report (continued)

Last but not least are your Board members, led by Hurtle Lupton who continue to put in many hours to promote your **Community Bank**® branches within the community and guide the business to ensure your assets are protected.



John Surridge
General Manager

Fern Tree Gully Manager's report

For year ending 30 June 2013

It has been an interesting 12 months that have just flown by, your **Community Bank**[®] branch has held steady through these tough economic times.

As at 30 June 2013 we had 6,735 accounts and the branch has deposit and lending balances of \$113.31million.

With the support of the shareholders and the community we have been able to support the area and keep the customers coming into the branch, this also gives the traders and excellent opportunity to increase their individual businesses

Over the years our **Community Bank**[®] branch has assisted many local community organisations with financial grants enabling a number of projects that have been undertaken by these groups to be completed for the benefit of their members.

Donations and sponsorships continue to flow back into the community which makes my job so much more satisfying knowing that the people of Ferntree Gully are benefiting.

You can be reassured that staff and I will not be resting on the results that have been achieved to date; we will strive to keep growing and increasing the current level of business to enable your community to benefit from our profits.

I would like to take this opportunity to thank John Surridge again for his ongoing guidance and support, also the staff for their dedication and commitment to our **Community Bank**[®] branch, the Board of Directors for their commitment and dedication that enables us to grow as we have done over the past 13 years.



Tina Leslie
Branch Manager

Rowville Manager's report

For year ending 30 June 2013

I joined the Rowville **Community Bank**[®] Branch on the 7 January 2013 after having been the Branch Manager at Warburton from its opening in 2000 and then Branch Manager at Carrum Downs since May 2005.

Overall, 2013 was a good year of growth for Rowville. Our balance sheet grew from \$82.5 million in June 2012 to \$95.260 million as at 30 June 2013. When I joined in January our balances were on \$82.764 million, so there has been significant growth of Rowville's book in the last half of the financial year.

We have 2,700 customer numbers who conduct 3,815 accounts. This is up on the 3,672 accounts reported last year. Yes, there has been business which has followed me from Carrum Downs, but then the **Community Bank**[®] concept is all about developing and growing relationships.

It is very pleasing to report that we are much busier now in lending applications and over the counter transactions than we have been previously. This support of Rowville **Community Bank**[®] Branch has enabled us to put more funds back into our community and to clubs, organisations and schools that support us.

I would like to go on record and thank the Rowville **Community Bank**[®] Branch staff for the standard of service that they provide our clients with. It is second to none and is a significant factor in the growth of our business.

Our goal for the coming financial year is to break through the \$100 million in footings and maintain that.

To achieve that, we will continue to need your support and that of your family and friends. Rowville **Community Bank**[®] Branch's success and our ability to contribute back into your Community relies on that support.

Regards,



Mick Spruhan
Branch Manager

Finance report

For year ending 30 June 2013

The 2012/13 financial year has been very challenging. There was sustained growth of business under management increasing by 4.5% from \$198 million to \$207 million, however other key financial outcomes were substantially subdued compared to previous years resulting in:

- An 8.4% decrease in ordinary operating income on the previous financial year to \$1,849,277
- A 90.5% decrease in ordinary operating profit before tax on the previous financial year to \$46,419
- Return on shareholders funds before tax of 2.5%
- Earnings per share before tax of \$0.06
- Declaration of a dividend per share of \$0.175
- Approximate net realisable asset coverage per share of \$2.23
- Market capitalisation based upon the last share trade of the financial year of \$2.20 of \$1,717,650.

The key contribution to this result was:

- A decrease in revenue from reduced gross margin, trail commission and fees of \$147,804 heavily impacted by lower interest rates and the “Restoring the Balance” policy introduced by Bendigo and Adelaide Bank.
- A one off increase in marketing expenditures of \$173,427 principally as a result of the acquisition of electronic scoreboards and an additional new sponsorship arrangement with the Casey Scorpions.
- Increase in employee salaries and superannuation of \$82,915 as a result of recruitment of additional employees to properly staff both branches

The contribution of each **Community Bank**[®] branch operations based upon the end of year internal financial management reporting summary is detailed in the table below:

\$000	FTG	Row	Total
Operating revenue	1102	647	1749
Less operating expenses	645	505	1150
Equals contribution margin from branch operations	457	142	599
Less corporate expenses	300		
Equals cash operating profit	299		
Less net marketing expenses, donations & depreciation	284		
Add investment income	31		
Equals net profit (b/tax)	46		

Despite these results the company remains in a very sound financial position with significant cash reserves. All aspects of the business are being carefully scrutinised to ensure maximum value is being realised from all expenditure. I have full confidence in the medium to long term financial stability and viability of the company.



Darren Pearce
Finance Director

Marketing report

For year ending 30 June 2013

The Marketing over the 2012/13 year has seen many challenges and opportunities. The marketing committee is made up of John Surridge – Senior Manger, Tina Leslie – Branch Manger Ferntree Gully, Mick Spruhan – Branch Manager Rowville, Janine Shepherd, Community Liaison Officer, and myself, Etienne Clauw, representing the Board as the Marketing Director.

As in past years we have focused our Marketing expenditure into areas that provide the highest return back to the company bottom line. With John and Janine leading the face of marketing, this has allowed both Tina and Mick to spend more time on the business of banking. All four staff members are spending considerable time outside of normal business hours, keeping the message of the **Community Bank®** concept strong. Add to this the community team spirit shown by all staff within both branches, I wish to thank the leadership team for the continued efforts.

Janine has focused on the Newsletter, the relaunched website, and pushing our rewards program into the community.

The figures below will show that marketing has gone over budget by some \$120,000.

This is made up of 4 major initiatives that the Marketing committee took to the Board for approval, with the intent that the investment will pay itself back over the long term.

The four initiatives were, three electronic scoreboards valued at \$30,000 each for FTG, UFTG and Scoresby football grounds. The fourth being a \$30,000 lead sponsorship deal with the Casey Scorpions Football Club.

Income

The income stream for the Marketing budget is made up by Market development funds provided by Bendigo and Adelaide Bank, and company funds.

Income	Code	Company	FTG	Row	Total
Marketing Dev fund	4-4080	\$0	\$50,000	\$50,000	\$100,000
FTG & Row FS Contribution		\$60,000	\$0	\$0	\$60,000
Total		\$60,000	\$50,000	\$50,000	\$160,000

Expenses

Marketing activities are divided into four segments, Advertising, Sponsorship, Donations, and General Marketing.

Income	Code	Company	FTG	Row	Total
YTD expenses for the AGM					
Advertising	6-1004	\$4,465	\$4,172	\$4,480	\$13,117
Marketing	6-1006	\$39,976	\$8,632	\$11,063	\$59,671
Donations	6-1120	\$60,481	\$1,377	\$2,050	\$63,908
Sponsorships	6-1185	\$131,936	\$3,518	\$10,319	\$145,773
Totals		\$236,858	\$17,699	\$27,912	\$282,469

Marketing report (continued)

Advertising

Represents marketing aimed to increase the awareness of our company in the community.

Costs include Marketing staff wages, the Website and newsletter, with print advertising in the local community based newspapers of Ferntree Gully and Rowville, along with Radio coverage via 3MDR.

Sponsorship

Represents marketing aimed at a direct feedback to the company bottom line.

Provides direct exposure to Clubs, organisations, and community groups. We expect to see a win-win relationship for all sponsorship initiatives.

The area of sponsorship has become the main focus for John and Janine for their business development responsibilities.

Major sponsorships for this year include:

- Casey Scorpions Football fro \$30,000. Single year deal, that has not seen the results expected and will not be continued
- FTG FC Electronic Scoreboard \$30,000 representing \$5,000 pa sponsorship over six years
- UFTG FC Electronic Scoreboard \$30,000 representing \$5,000 pa sponsorship over six years
- Scoresby FC Electronic Scoreboard \$30,000 representing \$5,000 pa sponsorship over six years.

Donations

Represents marketing to a similar target group as sponsorships, but without the expected direct feedback. The level of donation request reduced considerably across both branches. The building sponsorship to Glengollan village \$60,000 (\$300,000 over five years), is the only major item.

General marketing

Represents all other cost associated with Marketing, such as Signs, banners, gazebos, and promotional items.

Collaborative Marketing Initiative (CMI)

This year saw the first combined marketing campaign covering the whole of the Melbourne Metropolitan area.

\$5,000 for each branch across Melb, was matched Dollar for Dollar by Bendigo Marketing. The campaign feature a TV advertisement run during Master Chef Professionals and The Block, along with a Cinema campaign, and Road Side Billboard.

The total funding was in excess of \$700,000

The Cost to Knox was two x \$5,000.

Community Grants 2013

Community Grants applications totalled in excess of \$52,000,

The committee review process resulted in the final figure totalling \$34,471.

The finance report will show the value for this year closer to \$90,000.

This is due to last years Grants program payments running into this financial year, along with over \$20,000 of Defibrillators.

Marketing report (continued)

2013/14

The Marketing plan for 2012/13 year will see us closer to the \$160,000 annual budget. With the Final donation payment for Glengollan of \$60,000, we will work with the \$100,000 for the Full year Marketing.

We have introduced of a suite of rewards programs design to bring more business to our branches will account holders, business, community groups, clubs, and associations all sharing in the **Community Bank®** model.

The newsletter and company website will remain our prime communication format.

Please visit our website via the link – www.kcbg.com.au

I wish to again thank the Marketing committee for their efforts over the year, and look forward to another successful year across 2013/14.

Yours sincerely,



Etienne Clauw
Marketing Director

Directors' report

For the financial year ended 30 June 2013

Your Directors present this report on the company for the financial year ended 30 June 2013.

Directors

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

Name of Director	Meetings attended	Meetings held
Graeme McEwin	11	12
Darren Pearce	11	12
Hurtle Lupton	11	12
Etienne Clauw	9	12
Phillip Reibelt	7	12
Desmond Higginbotham	12	12
Anthony Holland	9	12
Jeffrey Somers	11	12

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Operating result

The profit of the company for the financial year after providing for income tax amounted to:

	Year ended 30 June 2013 \$	Year ended 30 June 2012 \$
	43,244	349,869

Review of operations

A review of the operations of the company during the financial year and the results of those operations showed an overall profit before income tax of \$46,419.

Significant changes in the state of affairs

No significant changes in the company's state of affairs occurred during the financial year.

Principal activities

The principal activities of the company during the course of the year were Bendigo Bank **Community Bank**[®] branch operating in Ferntree Gully, Rowville and Scoresby. No significant change in the nature of these activities occurred during the year.

Directors' report (continued)

After balance date events

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

Likely developments

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

Dividends

During the year the Directors have provided for and paid dividends of \$136,631.25 (\$0.175 per share).

Options

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

Directors' interests in shares of the company or related bodies corporate

The particulars of shares held by the Directors of the company in the company or in related bodies corporate which are required to be declared in the register of Directors' share holdings are as follows:

Name of Director	Share holding
Graeme McEwin	6,000
Darren Pearce	5,500
Hurtle Lupton	6,000
Etienne Clauw	0
Phillip Reibelt	0
Desmond Higginbotham	1,000
Anthony Holland	500
Jeffrey Somers	1,000

Directors' benefits

No Director has received or has become entitled to receive, during or since the financial year, a benefit because of a contract made by the company 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.

This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the company's accounts, or the fixed salary of a full-time employee of the company or related body corporate.

Directors' report (continued)

Indemnifying Officer or Auditor

The company has agreed to indemnify each Director and Officer of the company out of assets of the company to the relevant extent against any liability incurred by that person arising out of the discharge of their duties, except where the liability arises out of conduct involving dishonesty, negligence, breach of duty or the lack of good faith. The company also has Officers insurance for the benefit of Officers of the company against any liability incurred by the Officer, which includes the Officer's liability for legal costs, in or arising out of the conduct of the business of the company or in or arising out of the discharge of the Officer's duties.

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.

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.

International Financial Reporting Standards (IFRS)

Since the introduction of Australian equivalents to International Financial Reporting Standards (IFRS), the company's financial report has been prepared in accordance with those standards.

Auditors independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 has been included.

Signed in accordance with a resolution of the Board of Directors:



Graeme McEwin
Director



Darren Pearce
Director

Dated: 3rd October 2013

Auditor's independence declaration

KNOX COMMUNITY FINANCIAL SERVICES LTD

ABN 88 093 823 708

Auditor's Independence Declaration

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF KNOX COMMUNITY FINANCIAL SERVICES LTD

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2013 there have been :

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the Audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit

Signed on : 3rd October 2013



Glenn Miller, FCPA
Nickless Miller Meehans Pty Ltd
110 Drummond Street, Oakleigh VIC 3166

Financial statements

Income statement for the year ended 30 June 2013

	Note	2013 \$	2012 \$
Classification of expenses by nature			
Revenues from ordinary activities	2	1,849,277	2,020,852
Bad and doubtful debts	3	(1,290)	(1,645)
Depreciation and amortisation expenses	3	(14,757)	(15,125)
Other expenses from ordinary activities		(1,786,811)	(1,519,032)
Profit from ordinary activities before income tax		46,419	485,049
Income tax expense relating to ordinary activities	4	(3,175)	(135,180)
Net profit attributable to members of the company		43,244	349,869

The accompanying notes form part of these financial statements.

Financial statements (continued)

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

	Note	Retained Profits \$	Issued & Paid Up Capital \$	Total \$
Balance at 30/06/2011		798,919	780,750	1,579,669
Profit attributable to the members		349,869		349,869
Shares issued during the year			0	0
Subtotal		1,148,788	780,750	1,929,538
Dividends paid or provided for		(117,112)		(117,112)
Balance at 30/06/2012		1,031,675	780,750	1,812,425
Profit attributable to the members		43,244		43,244
Shares issued during the year			0	0
Subtotal		1,074,919	780,750	1,855,669
Dividends paid or provided for		(136,631)		(136,631)
Balance at 30/06/2013		938,288	780,750	1,719,038

The accompanying notes form part of these financial statements.

Financial statements (continued)

Balance sheet as at 30 June 2013

	Note	2013 \$	2012 \$
Current assets			
Cash assets	6	871,902	1,067,348
Current tax assets	7	101,627	0
Total current assets		973,530	1,067,348
Non-current assets			
Property, plant and equipment	8	885,857	890,401
Total non-current assets		885,857	890,401
Total assets		1,859,387	1,957,749
Current liabilities			
Payables	9	76,988	41,589
Current tax liabilities	10	63,361	103,735
Total current liabilities		140,349	145,324
Total liabilities		140,349	145,324
Net assets		1,719,038	1,812,425
Equity			
Contributed equity	11	780,750	780,750
Retained profits		938,288	1,031,675
Total equity		1,719,038	1,812,425

The accompanying notes form part of these financial statements.

Financial statements (continued)

Statement of cash flows for the year ended 30 June 2013

	2013 \$	2012 \$
Cash flow from operating activities		
Receipts from customers	1,825,611	1,981,406
Payments to suppliers and employees	(1,756,868)	(1,484,342)
Interest received	16,476	29,391
Income tax paid	(133,821)	(192,626)
Net cash provided by (used in) operating activities (note 2)	(48,602)	333,829
Cash flow from investing activities		
Fixed asset purchases	(10,213)	(21,929)
Net cash provided by (used in) investing activities	(10,213)	(21,929)
Cash flow from financing activities		
Dividends paid	(136,631)	(117,112)
Net cash provided by (used in) financing activities	(136,631)	(117,112)
Net increase (decrease) in cash held	(195,446)	194,788
Cash at the beginning of the year	1,067,348	872,560
Cash at the end of the year (note 1)	871,902	1,067,348

The accompanying notes form part of these financial statements.

Financial statements (continued)

Statement of cash flows for the year ended 30 June 2013 (continued)

	2013 \$	2012 \$
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Note 1. Reconciliation of cash

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.

Cash at the end of the year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

Cash at bank	180,743	246,723
Investment account	176,675	320,125
Term deposit	513,985	500,000
Deposit bonds	500	500
	871,902	1,067,348

Note 2. Reconciliation of net cash provided by/used in operating activities to net profit

Operating profit (loss) after tax	43,244	349,869
Depreciation & amortisation	14,757	15,125
Increase/(decrease) in provision for income tax	(130,646)	(57,446)
Changes in assets and liabilities net of effects of purchases and disposals of controlled entities:		
Increase (decrease) in trade creditors and accruals	24,043	26,281
Net cash provided by (used in) operating activities	(48,602)	333,829

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2013

Note 1. Statement of significant accounting policies

The financial statements and notes represent those of Knox Community Financial Services Ltd as an individual entity. Knox Community Financial Services Ltd is a company limited by shares, incorporated and domiciled in Australia.

(A) Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) of the Australian Accounting Standards Board and the Corporations Act 2001. The company is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the 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 (IFRS). Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial statements, except for cash flow information, have been prepared on an accruals basis and are based on historical costs modified where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(B) Accounting policies

Income tax

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance date.

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 liability is settled and their measurement also reflects the manner in which the Directors 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 tax profits will be available against which deductible temporary differences can be utilised.

Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

a) Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement.

Notes to the financial statements (continued)

Note 1. Statement of significant accounting policies (continued)

Property, plant and equipment (continued)

a) Property (continued)

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

b) Plant and equipment

Plant and equipment is measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually to ensure it is not in excess of the recoverable amount from those 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 not been discounted to present values in determining the recoverable amounts.

The cost of fixed assets constructed within Knox Community Financial Services Ltd includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount recognised as a separate asset, as appropriate, only when it is probable that the 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 income statement during the financial period in which they are incurred.

c) Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to Knox Community Financial Services Ltd commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet 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 disposal are determined by comparing proceeds with the carrying amount. These gains or losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not legal ownership, are transferred to Knox Community Financial Services Ltd 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 value. 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 their estimated useful lives or over the term of the lease

Lease payments under 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.

Notes to the financial statements (continued)

Note 1. Statement of significant accounting policies (continued)

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.

Financial Instruments

a) Recognition

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sell the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss' in which case transaction costs are expensed to profit or loss immediately.

b) Financial assets at fair value through profit and loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short term profit taking, derivatives not held for hedging purposes, or when they are 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. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

c) 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.

d) 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.

e) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

f) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

g) 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 unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Notes to the financial statements (continued)

Note 1. Statement of significant accounting policies (continued)

Impairment of assets

At each reporting date, the Directors review 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 assets fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the income statement.

Intangibles

a) Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

b) Research and development expenditure

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

Employee benefits

Provision is made for the liability for employee entitlements 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 amount expected to be paid when the liability is settled. Employee entitlements payable later than one year have been measured at the present value of the estimated future cash out flows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may not satisfy any vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

Provisions

Provisions are recognised when Knox Community Financial Services Ltd has a legal or constructive obligation, as a result of past events, for which it is probable that the outflow of economic benefit will result and that the outflow can be measured reliably.

Cash and cash equivalents

Cash and Cash Equivalents includes cash on hand, deposits held at call with banks or financial institutions, 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 balance sheet.

Revenue

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).

Notes to the financial statements (continued)

Note 1. Statement of significant accounting policies (continued)

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

Goods and Service 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 balance sheet are shown inclusive of GST.

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

Comparative figures

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

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 internally.

Key estimates - Impairment

The Directors assess impairment at each reporting date by evaluating conditions specific to the group 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.

	2013	2012
	\$	\$
Note 2. Revenue		
Operating activities:		
Other sales revenue (including banking)	1,818,144	1,965,146
Rents	14,657	15,706
Interest revenue	16,476	29,391
Rebates & refunds	0	10,609
	1,849,277	2,020,852

Notes to the financial statements (continued)

	2013	2012
	\$	\$

Note 3. Profit from ordinary activities

Profit (loss) from ordinary activities before income tax has been determined after:

Charging as expense:

Bad and doubtful debts	1,290	1,645
Depreciation of non-current assets	14,757	15,125

Note 4. Income tax

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

Current tax	3,175	135,180
Income tax expense attributable to profit from ordinary activities	3,175	135,180

Note 5. Dividends

Dividends provided for or paid	136,631	117,112
	136,631	117,112

Note 6. Cash assets

Bank accounts:

Cash at bank	180,743	246,723
Investment account	176,675	320,125
Term deposits	513,985	500,000
Deposit bonds	500	500
	871,902	1,067,348

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	871,902	1,067,348
	871,902	1,067,348

Note 7. Tax assets

Taxation refundable	101,627	0
	101,627	0

Notes to the financial statements (continued)

	2013 \$	2012 \$
Note 8. Property, plant and equipment		
Buildings:		
- At cost	772,928	772,928
	772,928	772,928
Leasehold improvements:		
- At cost	46,645	46,645
- Less: Accumulated depreciation	(46,645)	(46,645)
	0	0
Plant and equipment:		
- At cost	276,987	266,774
- Less: Accumulated depreciation	(164,058)	(149,301)
	112,929	117,473
	885,857	890,401

Note 9. Payables

Trade creditors	50,052	23,303
Sundry creditors	22,526	18,286
	76,988	41,589

Note 10. Tax Liabilities

GST Payable	49,379	56,628
Taxation	0	29,019
PAYG Withholding payable	13,982	18,088
Security deposits	4,410	0
	63,361	103,735

Note 11. Contributed capital

Ordinary shares at \$1.00 each fully paid	780,750	780,750
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Ordinary shares participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Note 12. Company details

The registered office of the company is 67 Station Street, Ferntree Gully, Victoria 3156.

Directors' declaration

In accordance with a resolution of the Directors of Knox Community Financial Services Ltd, the Directors of the company declare that:

1. the financial statements and notes are in accordance with the Corporations Act 2001 and:
 - (a) comply with Australian Accounting Standards, which as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
 - (b) give a true and fair view of the company's financial position as at 30 June 2013 and of its performance for the year ended on that date;
2. 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.



Graeme McEwin
Director



Darren Pearce
Director

Dated: 3rd October 2013

Income statement

For the year ended 30 June 2013

	Note	2013 \$	2012 \$
Income			
Gross margin		1,163,446	1,244,384
Commission		16,595	15,793
Trailer commission		321,608	378,260
Fee income		216,495	226,709
Market Development Fund		100,000	100,000
Interest received		16,476	29,391
Rebates and refunds		0	10,609
Rent received		14,657	15,706
Total income		1,849,277	2,020,852
Expenses			
Accountancy		23,815	31,170
Advertising, marketing & sponsorship		277,777	104,350
Bad debts		1,290	1,645
Bank fees & charges		1,979	1,045
Bendigo and Adelaide Bank Limited fees		78,454	79,006
Board expenses		7,023	0
Cleaning		31,255	28,941
Couriers		14,926	14,958
Depreciation		14,757	15,125
Directors fees		46,031	0
Donations		91,321	118,510
Filing fees		1,156	2,340
Heat, light & power		14,103	13,899
Insurance		24,020	24,611
Legal fees		91	364
Payroll tax		22,382	17,284
Postage		3,368	3,286
Printing & stationery		30,238	31,222
Procedural errors		(28)	642
Rates & land taxes		6,866	4,504

Income statement (continued)

For the year ended 30 June 2013

	Note	2013 \$	2012 \$
Expenses (continued)			
Rent on land & buildings		69,403	69,166
Repairs & maintenance		7,691	12,236
Salaries		866,022	794,902
Security		9,215	3,995
Share registry		3,741	3,048
Staff training		14,300	14,336
Sundry expenses		27,918	33,631
Superannuation		91,738	79,943
Telephone		15,692	22,808
Uniform		4,034	5,975
Workcover insurance		2,279	2,861
Total expenses		1,802,858	1,535,802
Profit from ordinary activities before income tax		46,419	485,049

Independent audit report

KNOX COMMUNITY FINANCIAL SERVICES LTD

ABN 88 093 823 708

Independent Auditor Report

Report on the financial report

We have audited the accompanying financial report of KNOX COMMUNITY FINANCIAL SERVICES LTD, which comprises the balance sheet as at 30 June 2013, income statement, 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 director's declaration of the company for the year ended 30 June 2013.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report 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 gives a true and fair view and 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 International Financial Reporting Standards (IFRS).

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 as to whether the financial report is free of 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 judgment, 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.

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 would be in the same terms if provided to the directors as at the date of this auditor's report.

Independent audit report (continued)

KNOX COMMUNITY FINANCIAL SERVICES LTD

ABN 88 093 823 708

Independent Auditor Report

Auditor's Opinion

In our opinion:

- (a) the financial report of KNOX COMMUNITY FINANCIAL SERVICES LTD 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 2013 and of its performance for the year ended on that date, and complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
 - (ii) The financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Signed on : 3rd October 2013



Glenn Miller, FCPA

Nickless Miller Meehans Pty Ltd

110 Drummond Street, Oakleigh VIC 3166



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(BMPAR13055) (08/13)

