KU-RING-GAI FINANCIAL SERVICES LIMITED

ABN 56 103 129 184

ANNUAL REPORT 2011

Turramurra
Community Bank® Branch
Bendigo Bank

KU-RING-GAI FINANCIAL SERVICES LIMITED

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Contents

Chairman's report

David Langdon, Chairman

It is my pleasure to report on the progress of Ku-ring-gai Financial Services Limited (the Company) during the year ended 30 June 2011.

Highlights

The 2010/11 financial year was an extraordinarily busy and productive period for the Company, during which the directors and staff executed an aggressive business expansion strategy associated with the opening of a new branch in Lindfield, whilst achieving total portfolio growth in excess of $20 million and a net profit after tax of $213,000 from the activities of Turramurra **Community Bank**® Branch.

Pleasingly, this increased net profit after tax was achieved after contributing $173,200 to local community groups in the form of community grants, sponsorships and donations. The Company also paid $166,348 in fully-franked dividends to our shareholders during 2010/11 and is proud to have now returned more than **$950,000** to local residents and community groups since its inception in 2003.

As separately reported, the directors have made considerable progress with the Company's Lindfield expansion strategy whereby the Company has been operating an interim banking facility which will shortly be transformed into a state-of-the-art bank branch in our superbly-located premises at 318 Pacific Highway (opposite Lindfield railway station).

The directors also completed a re-capitalisation of the company's existing Turramurra-based business by undertaking a one-for-one bonus share issue for existing shareholders. The directors have subsequently lodged (with ASIC) a prospectus which is intended to raise up to $500,000 of additional share capital from local residents of Lindfield and surrounding areas to fund the fit-out of our Lindfield premises and provide additional working capital during the start-up phase of the branch's operations.

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

Table 1 summarises our achievements during the past 12 months.

Table 1: Achievements during the past 12 months

DESCRIPTION	2011	2010	INCREASE
	$000	$000	%
Revenue	1,532	1,363	12%
Net profit before tax	308	277	11%
Net profit after tax	213	195	9%
	CENTS	CENTS	
Dividends per share	13.5	9	50%
	$000	$000	
Dividends paid	166.3	83.2	100%
	$ MILLION	$ MILLION	
Total portfolio	189.3	169.4	12%
Total deposits	117.1	105.7	11%
Total loans	72.2	63.7	13%
	NO.	NO.	
Number of customers	3,353	3,171	6%
Number of accounts	5,444	5,177	5%
	$000	$000	
Community contributions:			
Sponsorship, donations	68.0	38.2	78%
Community grants	105.2	124.6	-16%
Total community contributions	173.2	162.8	6%

Operating results

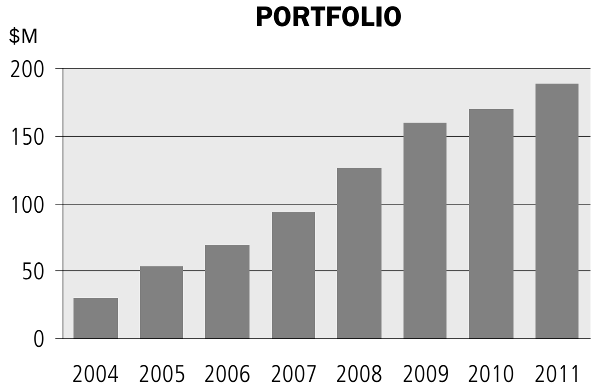
Your directors and our staff have continued to focus on growing the level of business on our books (total portfolio) and thereby increase revenue, in order to be able to provide substantial financial and other support to local community groups and reward shareholders with appropriate dividends.

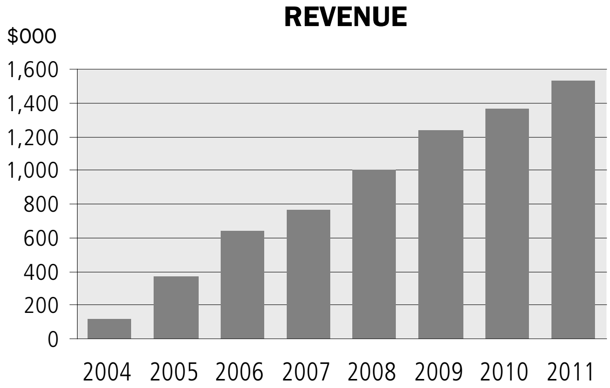
Chairman's report continued

As indicated above, Turramurra **Community Bank**® Branch finished the 2010/11 financial year with a total portfolio of $189 million and with 3,353 customers and 5,444 customer accounts on our books. As a consequence of portfolio growth in excess of $20 million (12%) the Company's revenue from ordinary activities increased by 12% to $1.53 million during this period.

Turramurra **Community Bank**® Branch is now a mature business in its eighth year of operations. Accordingly, the run-off of our existing portfolio is steadily increasing and more staff time is required to be directed towards maintaining the business of existing customers. Furthermore, the size and design of our Turramurra premises limits the ability of our staff to operate and deliver customer services in an optimal manner.

In these circumstances, the net growth in our total portfolio, number of customers and customer accounts achieved by our staff during this period was outstanding.

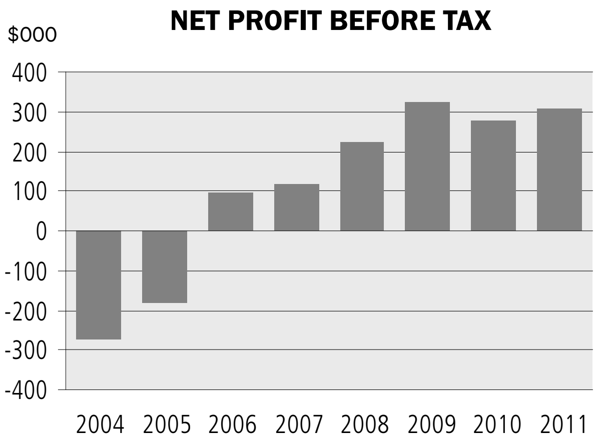


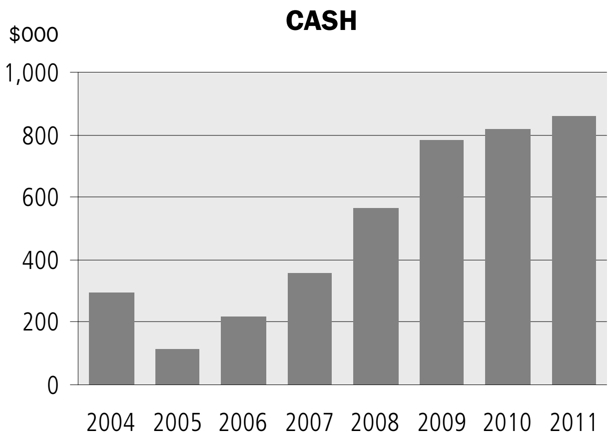


The company achieved a pre-tax profit of $307,942 during this period despite outlaying in the order of $45,000 in Lindfield appraisal and development initiatives and making community contributions totalling $173,200 during this period.

After provision for income tax, the net profit attributable to members was $212,693 which represents a modest increase of $17,256 (9%) over 2010.

Furthermore, our balance sheet remains strong as our year-end cash reserves increased from $817,000 to $861,000 notwithstanding the payment of a one-off interim dividend payment ($83,174) on 30 June 2011.





Dividend payments

A fully franked final dividend of 9 cents per share ($83,174) was paid in October 2010 in respect of the company's profit for the year ended on 30 June 2010.

On 30 June 2011 a fully franked interim dividend of 4.5 cents per share ($83,174) was paid in respect of the period 1 July 2010 to 31 May 2011 on the total number of shares following the one for one bonus issue.

The directors declared this interim dividend in order to reward the then current owners of the business for the continuing growth and profitability of the business during this period and the strength of the Company's cash reserves.

The directors do not intend to pay a final dividend in respect of the year ended 30 June 2011.

Lindfield expansion strategy

As previously stated, the objective of this strategic initiative is to expand the operations of the Company by opening a second site and thereby increase our community engagement and the scope for delivery of our banking services within Ku-ring-gai whilst also easing the pressure on our Turramurra premises.

As planned, the directors have undertaken and successfully completed a formal and proven process to evaluate the viability of our Lindfield Project.

The key steps in this process included establishing a steering committee, conducting an awareness campaign including requests for indicative pledges of support, engaging an external consultant to conduct a feasibility study and preparing a formal business plan (approved by Bendigo and Adelaide Bank) which culminated in the lodgement of a Prospectus with ASIC on 23 August 2011.

The directors are aiming to achieve the commitment of a minimum of 100 new local shareholders (prospective customers) as well as raise up to $500,000 in new share capital via this Prospectus.

A public prospectus launch and supporting publicity campaign will be undertaken to ensure the successful outcome of the prospectus initiative.

In the meantime, the directors are encouraged by the support shown so far whereby we have already received more than 180 individual pledges of support totalling more than $640,000 from local residents who have indicated their intention to subscribe for these new shares.

Returning profits to our community

Returning profits to the local community is a core philosophy of all 276 **Community Bank**® branches operating within Bendigo Bank's **Community Bank**® business model.

Indeed, Bendigo Bank recently announced that its network of **Community Bank**® branches across Australia has returned more than $58 million in community sponsorships and donations plus $18 million in community dividends.

Chairman's report continued

West Pymble Football Club's 'Players with Disabilities' program

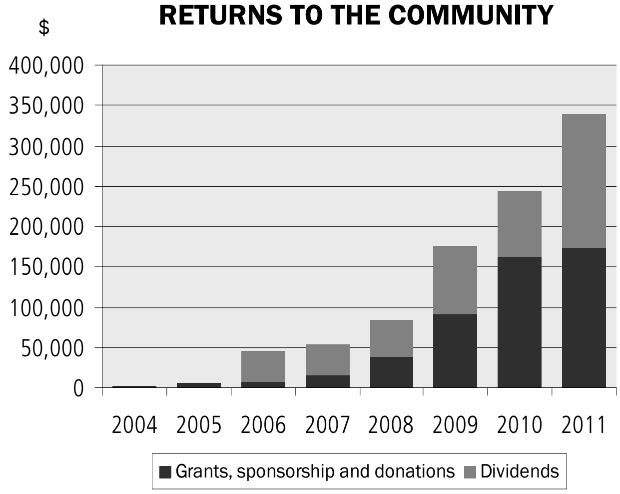
Behind these statistics there are thousands of stories of how **Community Bank**® branches such as ours are making a real difference to the lives of Australians by helping to improve the economic and social prospects of their local communities.

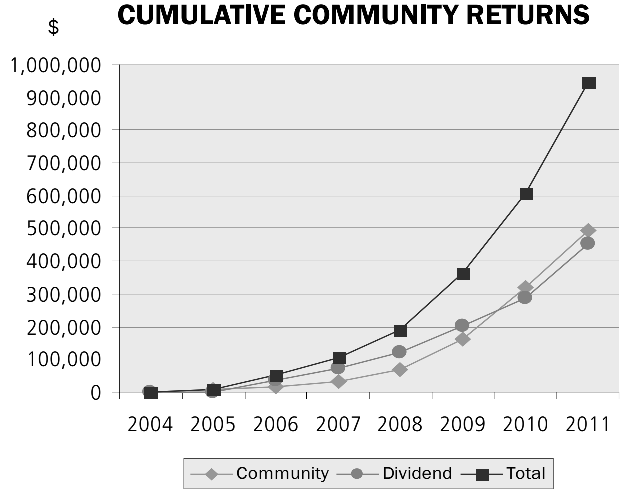
Turramurra **Community Bank**® Branch distributed a total of $50,000 in grants to local community groups at our 2010 Community Grants Presentation conducted in October 2010. Grant recipients included Ku-ring-gai SES, Ku-ring-gai Meals on Wheels, Ku-ring-gai Philharmonic Orchestra, Ku-ring-gai Youth Development Service (KYDS), local Scout and Girl Guides groups, Pymble Turramurra Kindergarten and the Ku-ring-gai Lantern Group (for The Royal Institute for Deaf and Blind Children).

The Company also provided sponsorship support to numerous youth, sporting and other local community groups including Kissing Point Sports Club, Ku-ring-gai Netball Association, Ku-ring-gai Youth Orchestra, Ku-ring-gai Shed, Ku-ring-gai Arts Society, Killara Bowling Club, Gordon Bowling Club, Gordon Hockey, Holy Family School Lindfield, KYDS, Lindfield East Public School, Turramurra Community Garden, Turramurra Bowling Club, Turramurra Public School, Turramurra Rotary, Warrawee Bowling Club, Warrawee Public School, West Pymble Bowling Club and West Pymble Football Club's 'Players with Disabilities' program as well as Lifeline, the Queensland Flood Appeal and Cancer Council.

Our total contribution of $173,200 to local clubs and community organisations during the past 12 months brings our cumulative contributions to local community groups to $495,000. Furthermore, our payment of $166,350 in dividends to local shareholders during 2010/11 brings the cumulative dividends paid to $452,788.

Inclusive of our initial 2011/12 contributions, the Company has now returned more than $950,000 to local residents and community groups since its inception.





HeroHQ Project

In addition to our Community Grants program, the Company has also announced its most ambitious community project since Turramurra **Community Bank**® Branch opened in 2003.

As previously reported by Ku-ring-gai Council in their *Ku-ring-gai Update* publication, a new community initiative has been launched in association with the construction and fit-out of new headquarter buildings for both Ku-ring-gai SES and the Bush Fire Brigade (BFB) in Wahroonga. Construction of these new buildings is expected to be completed during March/April 2012.

Whilst the $2 million construction costs of these new buildings have been fully-funded collectively by Council, SES and BFB, additional funding in the order of $200,000 is required to fit-out these vital new facilities.

Turramurra **Community Bank**® Branch has committed to assist Ku-ring-gai SES and BFB to raise these additional funds by helping to publicise this important community initiative and by directly contributing up to $100,000 via our "HeroHQ" Project, whereby the branch will match donations received from the public on a dollar for dollar basis. The Company has already set-aside $100,000 in our accounts for this purpose.

Shareholders and local residents can make their tax-deductible donations to this 'HeroHQ' initiative at Turramurra **Community Bank**® Branch or on-line.

These initiatives highlight the 'Power of Community' and why our branch initiatives resonate so positively with our customers and the broader community.

Youth Observer program

Your directors are also continuing to invest significant time and effort in the development of the youth of our community.

Since 2005 the Company has each year provided two students from the Turramurra High School (THS) with an opportunity to gain exposure and insights into the running of a public company. As an integral part of this program, our Youth Observers attend all of our Board meetings and all of our business and social functions.

This program also encourages and helps to prepare the participants to serve their community on a voluntary basis in the future and develops a stronger sense of community spirit.

Pleasingly, our 2010/11 Youth Observers (Rachael Pegley and Joshua Bridge) were invited to make a presentation at the 2011 **Community Bank**® NSW/ACT Conference held in Canberra in recognition of their enthusiasm and involvement during their involvement in our program. Their excellent presentation and broader participation in the Conference drew widespread acclaim.

Due to our expanding presence in the Lindfield community, two year 11 students from Killara High School (KHS) have been added to our Youth Observer program.

Our 2011/12 Youth Observers are Matthew Johnston and Mitchell Bazzana from THS plus Jessica Chen and Stefan Sunito from KHS.

2011 Youth Observers Stefan Sunito, Jessica Chen, Matthew Johnston and Mitchell Bazzana

Our new Youth Observers have already gained significant business insights into by their participation in the Company's recent re-capitalisation and interim dividend deliberations and more recently by observing the Company's due diligence processes associated with the development of our Lindfield Business Plan, annual accounts and Lindfield prospectus documents.

They will also attend, as official Company delegates, the 2011 **Community Bank**® National Conference to be held in Sydney during September.

Chairman's report continued

Outlook and aspirations

Given the strategic imperative to focus on successfully launching and establishing our new Lindfield branch and the continuing physical constraints associated with our Turramurra premises, your directors have budgeted for a modest growth outcome for our Turramurra **Community Bank**® Branch during 2011/12.

As stated, we have been operating an interim banking facility within our Lindfield premises since April 2011. This facility has provided visibility to passers-by and enabled customers to open accounts and transact non-cash business. Indeed, arising from the availability of this interim facility and supported by our Pledge and awareness campaigns and our active engagement with local businesses and community groups during the past 12 months, the Company has already secured more than $8 million of banking business on our "Lindfield" books.

From the beginning of October, our Lindfield branch will operate as a state-of-the-art, fully staffed and fully-functional bank branch.

Accordingly, and assuming that our Lindfield branch achieves the level of new business forecast by the feasibility study, as modified based upon the average trading performances of existing comparable **Community Bank**® branches, the directors are confident that the official opening of our Lindfield branch will be well supported by local businesses and residents and achieve strong portfolio growth during the remainder of 2011/12.

Nevertheless, significant establishment and start-up costs will also be incurred during this period in addition to our on-going Turramurra and Lindfield branch operating costs, including continuing and substantial community contributions in the form of charitable donations, grants and sponsorship programs.

As documented in our Lindfield prospectus, the directors expect the Company to incur an operating loss before tax in the order of $65,000 for the combined operation of our Turramurra and Lindfield businesses during fiscal 2011/12.

Directors' contributions

With the additional activities and associated planning and due diligence responsibilities arising from the strategic business expansion strategy undertaken by the Company during the past 12 months, the directors have been very busy indeed.

As in recent years, the directors met on a monthly basis, with the exception of December, to plan and monitor the operations of our business. We also conducted our annual full-day Strategy Meeting during February 2011 which was focussed on our Lindfield expansion strategy but also assisted in the establishment of our budgets, plans and priorities for the 2011/12 financial year.

Stephanie Fordree and Piggy talk to the next generation of customers at Lindfield East Public School fete

Directors sign the Prospectus for the Lindfield capital raising

We have welcomed four new directors to the Board, namely (in chronological order) Michael Cross, Linda McDonald, Bill Nevill and Ian Langford-Brown. Each of these new directors had been an active member of our Lindfield Steering Committee and brings local knowledge and community insights as well as proven business experience and expertise to the Board.

Sadly, we also experienced a higher than normal levels of retirement and resignations during 2010/11 including Greg Norris (appointed 2008) who retired at the Company's 2010 Annual General Meeting.

Long-term directors Ian Pont (2006), Ian Sweeney (2006) and Clive Hodson (2008) all resigned from the Board during March 2011, for their own personal reasons. Each of these directors made a significant personal contribution to the success of the Company during his term of office.

I once again extend my sincere thanks to each of our past and continuing directors, along with our incomparable Secretary/Bookkeeper/Share Registrar Julie Fidler and Marketing convenor David Hollott, for the time, expertise and energy that they have contributed, both individually and collectively.

These contributions have enabled the Company to achieve another successful year during 2010/11 and have provided a strong foundation for the Company's continued expansion and success.

Acknowledging our staff

Reflecting the expanded role and responsibilities associated with her oversight of two branches on behalf of the Company, Denice Kelly was recently appointed to a newly-created position of Senior Community Bank Manager, Turramurra/Lindfield.

As indicated in Denice's report, we have welcomed numerous new staff members to her Turramurra/Lindfield team during the past 12 months.

This influx of new staff has at times placed intense pressure on Denice and her expanded team, particularly as each of our new and existing staff members has been required to undertake intensive training in new Bendigo and Adelaide Bank systems and processes in order to increase their individual and collective skills, capabilities and capacity and thereby deliver increased customer service levels.

Furthermore, the recent operation of our interim banking facility in Lindfield has required Lindfield-based staff to perform their roles and responsibilities without access to the computer-based systems normally provided to assist our staff members to undertake their tasks in an optimum manner. These staff members are to be applauded for the enthusiastic, positive and professional manner in which they have conducted themselves in these circumstances

Notwithstanding these challenges, Denice and her team have continued to deliver excellent customer service and build the deeper relationships with our customers which in turn have produced outstanding results for Turramurra **Community Bank**® Branch for almost eight years.

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

Chairman's report continued

Bendigo and Adelaide Bank

Our relationship with Bendigo and Adelaide Bank Limited remains very strong and I thank the former NSW Manager Chris Bone and his recently appointed replacement Phil Jones, our Regional Manager Alex Hughes, Michael Wood from Community Strengthening and the entire Bendigo and Adelaide Bank **Community Bank**® team and Pymble-based NSW State Office personnel for the counsel, expertise and assistance provided to our staff and directors throughout the past 12 months.

The level of support and professional assistance provided in support of our Lindfield business expansion program has been particularly important and welcomed.

Pleasingly, Bendigo and Adelaide Bank's unique and proprietary **Community Bank**® model which has been operating since June 1998 continues to be an integral part of the Bank's business model.

The expected attendance of up to 1,000 delegates representing 276 **Community Bank**® branches at the 2011 National **Community Bank**® Conference in Sydney is testimony to the continuing support for this model.

Conclusion

As we approach our eighth anniversary, Turramurra **Community Bank**® Branch continues to be one of the best performing and highly-regarded **Community Bank**® branches in Bendigo and Adelaide Bank's branch network across Australia.

I once again thank all of our shareholders for your continuing support of your Turramurra **Community Bank**® Branch and the Company's Lindfield expansion strategy.

I also remind you that your on-going support as customers remains invaluable in ensuring our future success. As you know, it's your banking activity that ultimately determines the level of our returns to the local community.

I look forward to seeing as many shareholders as possible at our ninth Annual General Meeting (AGM) which will be held on Tuesday 15 November 2011. A notice of meeting will be forwarded to shareholders on 19 October 2011.

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

David A Langdon, Chairman

Manager's report

Our Growth and Expansion Connects Ku-ring-gai

Over the past year we have successfully increased our Turramurra portfolio by $20 million. It is now approaching $200 million in total loans and deposits.

We have employed a number of new staff who will form part of the one team that will service the Turramurra **Community Bank**® Branch and the Lindfield Branch which will open in October.

The new Lindfield Branch is at 318 Pacific Highway, Lindfield, directly opposite the railway station. As with Turramurra, we will be open from 9.00am to 5.00pm on weekdays and 9.00am to 12 noon on Saturdays.

The business growth demonstrates the experience and ability of the staff to provide exceptional customer service. Our customers initially came to us because they were looking for a more substantial and deeper relationship than that available elsewhere. They have discovered that we not only deliver on the relationship front but we go to great lengths to establish what our customers want and need. We get to know our customers personally and, as many of you know, even though we now have a substantial business we are only a phone call away from any customers that wishes to talk to us – better still come in and see us in the branch.

From Wahroonga to Roseville we will be servicing and supporting the Ku-ring-gai area. We are finding that many of our customers are already connected and involved in the wider Ku-ring-gai community.

Why did they bring their banking business to Turramurra **Community Bank**® Branch? Most understood and appreciated the board's investment in the Ku-ring-gai community by way of donations, grants and sponsorships. Without that support, many would not be in a position to fund and complete the various programs that enhance our community, be they local not-for-profit groups, schools or sporting groups.

I would like to thank all our shareholders for their continued support, the staff for the magnificent way they attend to all of our customers and to the board and all associated supporters of Ku-ring-gai Financial Services Limited for the exceptional management, guidance and leadership of our company.

Together we should all be very proud of the success of the Turramurra **Community Bank**® Branch over the last eight years and look forward to building the same success with the Lindfield Branch.

DKelly

Denice Kelly
Senior Community Bank Manager
Turramurra/Lindfield

Junie Kanlapan, Karen Chilvas, Jodie Chilvers, Denice Kelly, Michele Ferris, Vikki Atkins, Stephanie Fordree
Front: Loretta Smith, Brenda Naylor, Gabrielle Phipps

Directors' report

Your directors submit the financial report of the company for the financial year ended 30 June 2011.

Directors

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

DIRECTOR'S DETAILS — COMMITTEE RESPONSIBILITIES

David Andrew Langdon — Chairman
Executive Recruitment Consultant — Ex officio member of all committees

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

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

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

Roman Zeno Tarnawsky — Convenor, Lindfield Implementation Committee
Management Consultant, retail marketing and logistics — Lindfield Business Development Committee
GAICD, Grad.Dip.Mgmt. Admin, Dip Mech Engineering, Dip Civil Engineering

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

Monika Stelzner — Governance Committee
Accountant — Finance Committee
BBus, MBA, CPA — Community Engagement Committee
Lindfield Business Development Committee

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

Michael James Cross — Convenor, Lindfield Business Development Committee
(appointed 22 November 2010) — Lindfield Implementation Committee
Pharmacist
Bpharm, Dip Hospital Pharmacy

Michael has been the proprietor of a pharmacy in Lindfield for over 25 years and a partner in a pharmacy at Nelson Bay for over 20 years. Both businesses are very much part of the local community, specialising particularly in aged care. Michael has lived in Lindfield and Roseville for over 20 years. He is a long term President of Lindfield Chamber of Commerce.

DIRECTOR'S DETAILS	COMMITTEE RESPONSIBILITIES
Linda June McDonald	Convenor, HR & Operations Committee
(appointed 3 December 2010)	Governance Committee (Risk Management)
Business Consultant	Lindfield Business Development Committee
BSc, AFAIM, FAITD	Lindfield Implementation Committee

Linda has 12 years' experience consulting to medium to large businesses in executive coaching, leadership development and team development. She works from her home in Lindfield where she has lived for 27 years. Until 1998, Linda held senior management roles in Human Resources and Human Resource & Organisation Development with large corporates in Australia and Canada. She is a Fellow and Life Member of the Australian Institute of Training & Development where she was recognised for her volunteer service over many years.

William Raymond Nevill	Marketing Committee
(appointed 14 January 2011)	Community Engagement Committee
Retired	Lindfield Business Development Committee

Whilst actively involved with several sporting clubs within the area, Bill followed a career for over forty years in the paper industry both within Australia and overseas. He is a graduate of the Australian Administrative Staff College, Mt Eliza, and the International Marketing Institute of Australia. He was a member of the Institute of Public Affairs and served on the board of PATEFA NSW (Printing and Allied Trades Employers' Federation of Australia). He established manufacturing companies in both Indonesia and China with customer bases in North America, Europe and Australia. Bill is the former Chairman of the Lindfield Community Bank Branch Project Steering Committee.

Ian Langford-Brown	Convenor, Finance Committee
(appointed 23 May 2011)	Governance Committee
Chartered Accountant	Lindfield Business Development Committee

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

Gregory Alan Norris *(retired 16 November 2010),* Retail Manager

Ian Patrick Sweeney *(resigned 9 March 2011),* Dental Surgeon

Clive John Hodson *(resigned 11 March 2011),* Entertainment industry executive

Ian McArthur Pont *(resigned 14 March 2011),* Financial Controller

Brett John Saunders, Solicitor
(appointed 6 June 2011, resigned 3 August 2011)

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

Directors' report continued

Company Secretary

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

Principal activities

The principal activities of the company during the course of the financial year were in facilitating **Community Bank**® services under management rights to operate a franchised branch of Bendigo and Adelaide Bank Limited.

During the year the directors resolved to proceed with the opening of a second **Community Bank**® branch in Lindfield, New South Wales. The new branch is expected to be open for business in October 2011.

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

Operating results

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

YEAR ENDED 30 JUNE 2011 $	YEAR ENDED 30 JUNE 2010 $
212,693	195,437

Remuneration report

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

There are no employees who are directly accountable and have responsibility for the strategic direction and operational management of the entity.

There are therefore no specified executives whose remuneration requires disclosure.

Dividends

	YEAR ENDED 30 JUNE 2011	
	CENTS	$
Final dividend recommended	–	–
Dividends paid in the year:		
As recommended in the prior year report	9	83,174
Interim for the year	4.5	83,174

Significant changes in the state of affairs

During the year the directors resolved to proceed with the opening of a second **Community Bank**® branch in Lindfield, New South Wales. In the opinion of the directors there were no other significant changes in the state of affairs of the company that occurred during the financial year under review not otherwise disclosed in this report or the financial statements.

Matters subsequent to the end of the financial year

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

Likely developments

The company will continue its policy of facilitating banking services to the community in Ku-ring-gai from its existing branch in Turramurra and the new branch in Lindfield.

Environmental regulation

The company is not subject to any significant environmental regulation.

Directors' benefits

No director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a director, a firm which a director is a member or an entity in which a director has a substantial financial interest.

Indemnification and insurance of directors and officers

The company has indemnified all directors and the manager in respect of liabilities to other persons (other than the company or related body corporate) that may arise from their position as directors or manager of the company except where the liability arises out of conduct involving the lack of good faith.

Disclosure of the nature of the liability and the amount of the premium is prohibited by the confidentiality clause of the contract of insurance. The company has not provided any insurance for an auditor of the company or a related body corporate.

Directors' meetings

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

	NUMBER OF BOARD MEETINGS		COMMUNITY ENGAGEMENT COMMITTEE	
	ELIGIBLE	ATTENDED	ELIGIBLE	ATTENDED
David Andrew Langdon	13	13	6	4
Allan Peter Millard	13	6	6	6
Roman Zeno Tarnawsky	13	11	6	3
Monika Stelzner	13	13	4	3
Michael James Cross	9	9	–	–
Linda June McDonald	8	7	–	–
William Raymond Nevill	8	8	2	2
Ian Langford-Brown	4	3	–	–
Gregory Alan Norris	4	4	–	–
Ian Patrick Sweeney	7	3	–	–
Clive John Hodson	7	2	3	3
Ian McArthur Pont	7	7	–	–
Brett John Saunders	2	2	–	–

The board has sub-committees for Marketing, Lindfield Business Development, Finance, Human Resources & Operations and Lindfield Implementation. These sub-committees met on an ad hoc basis and report to board meetings as required.

Directors' report continued

Non audit services

The company may decide to employ the auditor on assignments additional to their statutory duties where the auditor's expertise and experience with the company are important. Details of the amounts paid or payable to the auditor (Andrew Frewin & Stewart) for audit and non-audit services provided during the year are set out in the notes to the accounts.

The board of directors has considered the position, in accordance with the advice received from the audit committee and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

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

- all non-audit services have been reviewed by the audit committee to ensure they do not impact on the impartiality and objectivity of the auditor;
- none of the services undermines the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 15.

Signed in accordance with a resolution of the board of directors at Turramurra, New South Wales on 8 August 2011.

David A Langdon
Langford-Brown

David A Langdon
Chairman

Ian Langford-Brown
Director

Auditor's independence declaration

Partners in success

Chartered Accountants

Lead Auditor's Independence Declaration under section 307C of the Corporations Act 2001 to the directors of Ku-ring-gai Financial Services Limited

I declare, that to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

- no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

- no contraventions of any applicable code of professional conduct in relation to the audit.

DAVID HUTCHINGS
ANDREW FREWIN & STEWART
61-65 Bull Street, Bendigo, 3550

8th August 2011

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

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Statement of comprehensive income
for the year ended 30 June 2011

	NOTES	2011 $	2010 $
Revenues from ordinary activities	4	1,583,685	1,395,348
Employee benefits expense		(601,577)	(538,895)
Charitable donations, sponsorships, advertising and promotion		(216,069)	(193,311)
Occupancy and associated costs		(154,020)	(134,209)
Systems costs		(71,127)	(50,174)
Depreciation and amortisation expense	5	(36,469)	(32,734)
Finance costs	5	(4,690)	(5,318)
General administration expenses		(191,791)	(164,072)
Profit before income tax expense		**307,942**	**276,635**
Income tax expense	6	(95,249)	(81,198)
Profit after income tax expense		**212,693**	**195,437**
Total comprehensive income for the year		**212,693**	**195,437**
		¢	¢
Earnings per share (cents per share)			
– basic for profit for the year	23	21.59	21.15

The accompanying notes form part of these financial statements.

Balance sheet
as at 30 June 2011

	NOTES	2011 $	2010 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	861,397	817,380
Trade and other receivables	8	149,401	132,865
Total Current Assets		**1,010,798**	**950,245**
Non-Current Assets			
Property, plant and equipment	9	236,201	245,126
Intangible assets	10	32,136	45,909
Deferred tax assets	11	15,387	19,626
Total Non-Current Assets		**283,724**	**310,661**
Total Assets		**1,294,522**	**1,260,906**
LIABILITIES			
Current Liabilities			
Trade and other payables	12	74,927	47,071
Current tax liabilities	11	7,314	21,677
Borrowings	13	12,895	19,777
Provisions	14	78,676	77,717
Total Current Liabilities		**173,812**	**166,2420**
Non-Current Liabilities			
Borrowings	13	37,390	45,791
Provisions	14	9,604	9,500
Total Non-Current Liabilities		**46,994**	**55,291**
Total Liabilities		**220,806**	**221,533**
Net Assets		**1,073,716**	**1,039,373**
EQUITY			
Issued capital	15	871,964	883,964
Retained earnings	16	201,752	155,409
Total Equity		**1,073,716**	**1,039,373**

The accompanying notes form part of these financial statements.

Statement of changes in equity
for the year ended 30 June 2011

	ISSUED CAPITAL $	RETAINED EARNINGS $	TOTAL EQUITY $
Balance at 1 July 2009	**883,964**	**43,146**	**927,110**
Total comprehensive income for the year	–	195,437	195,437
Transactions with owners in their capacity as owners:			
Shares issued during period	–	–	–
Costs of issuing shares	–	–	–
Dividends provided for or paid	–	(83,174)	(83,174)
Balance at 30 June 2010	**883,964**	**155,409**	**1,039,373**
Balance at 1 July 2010	**883,964**	**155,409**	**1,039,373**
Total comprehensive income for the year	–	212,693	212,693
Transactions with owners in their capacity as owners:			
Shares issued during period	–	–	–
Costs of issuing shares	(12,000)	–	(12,000)
Dividends provided for or paid	–	(166,350)	(166,350)
Balance at 30 June 2011	**871,964**	**201,752**	**1,073,716**

The accompanying notes form part of these financial statements.

Statement of cash flows
for the year ended 30 June 2011

	NOTES	2011 $	2010 $
Cash Flows From Operating Activities			
Receipts from customers		1,447,736	1,358,263
Payments to suppliers and employees		(1,144,074)	(1,142,194)
Interest received		45,824	34,573
Interest paid		(4,690)	(5,318)
Income taxes paid		(105,373)	(88,432)
Net cash provided by operating activities	17	**239,423**	**156,892**
Cash Flows From Investing Activities			
Payments for property, plant and equipment		(13,722)	(83,379)
Payments for intangible assets		–	14,091
Net cash used in investing activities		**(13,722)**	**(69,288)**
Cash Flows From Financing Activities			
Proceeds from borrowings		–	62,910
Repayment of borrowings		(15,282)	(32,938)
Dividends paid		(166,352)	(83,174)
Net cash used in financing activities		**(181,634)**	**(53,202)**
Net increase in cash held		**44,017**	**34,402**
Cash and cash equivalents at the beginning of the financial year		817,380	782,978
Cash and cash equivalents at the end of the financial year	7(a)	**861,397**	**817,380**

The accompanying notes form part of these financial statements.

Notes to the financial statements
for the year ended 30 June 2011

1 Summary of significant accounting policies

a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standard Boards and the Corporations Act 2001.

Compliance with IFRS

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

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. These areas involving a higher degree of judgement or complexities, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Financial statement presentation

The company has applied revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The company has elected to present all items of income and expense recognised in the period in a single statement of comprehensive income.

Historical cost convention

The financial statements have been prepared under the historical cost convention on an accruals basis as modified by the revaluation of financial assets and liabilities at fair value through profit or loss and where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Comparative figures

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

Adoption of new and revised Accounting Standards

During the current year the entity has adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of the company.

AASB 101 Presentation of Financial Statements

In September 2007 the Australian Accounting Standards Board revised AASB 101, and as a result there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the company's financial statements.

Disclosure impact

Terminology changes – The revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity – The revised AASB 101 requires all changes in equity arising from transactions with owners in their capacity as owners to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income – The revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The company's financial statements contain a single statement of comprehensive income.

Other comprehensive income – The revised version of AASB 101 introduces the concept of "other comprehensive income" which comprises of income and expense that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

New Accounting Standards for application in future periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods, as follows:

- *AASB 9: Financial Instruments* and *AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]* (applicable for annual reporting periods commencing on or after 1 January 2013)
- *AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]* (applicable for annual reporting periods commencing on or after 1 January 2011)

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The company has determined these amendments will have no impact on the preparation of the financial statements and therefore they have not been applied.

Economic dependence – Bendigo and Adelaide Bank Limited

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank**® Branch at Turramurra, New South Wales.

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

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

Bendigo and Adelaide Bank Limited provides significant assistance in establishing and maintaining the **Community Bank**® branch franchise operations. It also continues to provide ongoing management and operational support, and other assistance and guidance in relation to all aspects of the franchise operation, including advice in relation to:

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

Notes to the financial statements continued

1 **Summary of significant accounting policies** continued

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

b) Revenue

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

Revenue calculation

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

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

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

c) Income tax

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

d) Employee entitlements

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

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

e) *Cash and cash equivalents*

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

f) Trade receivables and payables

Receivables are carried at their amounts due. The collectability of debts is assessed at balance date and specific provision is made for any doubtful accounts. Liabilities for trade creditors and other amounts are carried at cost that is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the company.

g) Property, plant and equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated at the rate equivalent to the available building allowance using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

Notes to the financial statements continued

1 Summary of significant accounting policies continued

g) Property, plant and equipment *continued*

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

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

h) Intangibles

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

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

i) Payment terms

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

j) Borrowings

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

k) Financial instruments

Recognition and initial measurement

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

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

Derecognition

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

Classification and Subsequent Measurement

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the entity's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

(iii) Financial Liabilities

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

Impairment

At each reporting date, the entity assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the statement of comprehensive income.

l) *Leases*

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership are transferred to the company are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

m) *Provisions*

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions of other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

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

n) *Contributed equity*

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

o) *Earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

p) *Goods and services tax*

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis.

The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

2 Financial risk management

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

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

Notes to the financial statements continued

2 Financial risk management continued

(i) Market risk

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

(ii) Price risk

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

(iii) Credit risk

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

(iv) Liquidity risk

Prudent liquidity management implies maintaining sufficient cash and marketable securities and the availability of funding from credit facilities. The company believes that its sound relationship with Bendigo and Adelaide Bank Limited mitigates this risk significantly.

(v) Cash flow and fair value interest rate risk

Interest-bearing assets are held with Bendigo and Adelaide Bank Limited and subject to movements in market interest. Interest-rate risk could also arise from long-term borrowings. Borrowings issued at variable rates expose the company to cash flow interest-rate risk. The company believes that its sound relationship with Bendigo and Adelaide Bank Limited mitigates this risk significantly.

(vi) Capital management

The board's policy is to maintain a strong capital base so as to sustain future development of the company. The board of directors monitor the return on capital and the level of dividends to shareholders. Capital is represented by total equity as recorded in the balance sheet.

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

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

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

The board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the year ended 30 June 2011 can be seen in the statement of comprehensive income.

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

3 Critical accounting estimates and judgements

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

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

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

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Taxation

Judgement is required in assessing whether deferred tax assets and certain tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation.

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

Estimation of the useful lives of assets

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

Impairment of assets

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

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

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

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

Notes to the financial statements continued

	2011 $	2010 $
4 Revenue from ordinary activities		
Operating activities:		
– margin income	911,197	757,457
– services commissions	618,186	601,270
– other revenue	3,073	4,295
Total revenue from operating activities	**1,532,456**	**1,363,022**
Non-operating activities:		
– interest received	51,229	32,326
Total revenue from non-operating activities	**51,229**	**32,326**
Total revenues from ordinary activities	**1,583,685**	**1,395,348**
5 Expenses		
Depreciation of non-current assets:		
– motor vehicle	7,682	3,848
– furniture and equipment	3,452	3,750
– leasehold improvements	11,563	11,364
Amortisation of non-current assets:		
– franchise agreement	2,295	2,295
– franchise renewal fee	11,477	11,477
	36,469	**32,734**
Finance costs:		
– interest paid	4,690	5,318
Bad debts	101	11,785
Loss on disposal of assets	–	9,904

		2011	2010
		$	$

6 Income tax expense

The components of tax expense comprise:			
– Current tax		93,254	88,799
– Movement in deferred tax		4,238	(7,601)
– Recoupment of prior year tax loss		(2,243)	–
		95,249	**81,198**
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:			
Operating profit		307,942	276,635
Prima facie tax on profit from ordinary activities at 30%		92,383	82,991
Add tax effect of:			
– non-deductible expenses		5,354	4,132
– timing difference expenses		(6,481)	4,088
– other deductible expenses		(245)	(2,412)
		91,011	**88,799**
Movement in deferred tax	11	4,238	(7,601)
		95,249	**81,198**

7 Cash and cash equivalents

Cash at bank and on hand		80,027	63,821
Term deposits		781,370	753,559
		861,397	**817,380**

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cashflows as follows:

7(a) Reconciliation of cash

Cash at bank and on hand		80,027	63,821
Term deposits		781,370	753,55
		861,397	**817,380**

8 Trade and other receivables

Trade receivables		132,042	119,674
Other receivables and accruals		10,480	5,075
Prepayments		4,879	3,366
Refundable deposit		2,000	4,750
		149,401	**132,865**

Notes to the financial statements continued

	2011	2010
	$	$
9 Property, plant and equipment		
Office furniture and equipment		
At cost	41,540	38,107
Less accumulated depreciation	(13,977)	(10,468)
	27,563	**27,639**
Leasehold improvements		
At cost	236,879	226,539
Less accumulated depreciation	(78,528)	(67,021)
	158,351	**159,518**
Motor vehicle		
At cost	61,287	61,287
Less accumulated depreciation	(11,000)	(3,318)
	50,287	**57,969**
Total written down amount	**236,201**	**245,126**
Movements in carrying amounts:		
Office furniture and equipment		
Carrying amount at beginning	27,639	23,218
Additions	3,432	9,866
Disposals	–	(3,155)
Less: depreciation expense	(3,508)	(2,290)
Carrying amount at end	**27,563**	**27,639**
Leasehold improvements		
Carrying amount at beginning	159,518	169,656
Additions	10,340	1,226
Less: depreciation expense	(11,507)	(11,364)
Carrying amount at end	**158,351**	**159,518**
Motor vehicle		
Carrying amount at beginning	57,969	22,373
Additions	–	61,287
Disposals	–	(20,384)
Less: depreciation expense	(7,682)	(5,307)
Carrying amount at end	**50,287**	**57,969**
Total written down amount	**236,201**	**245,126**

	2011	2010
	$	$

10 Intangible assets

Franchise Fee		
At cost	71,477	71,477
Less: accumulated amortisation	(66,120)	(63,825)
	5,357	**7,652**
Franchise Renewal Fee		
At cost	57,385	57,385
Less: accumulated amortisation	(30,606)	(19,128)
	26,779	**38,257**
	32,136	**45,909**

11 Tax

Current:		
Income tax payable	7,314	21,677
Non-current:		
Deferred tax asset		
– Accruals	4,560	3,960
– Employee provisions	15,435	18,198
	19,995	22,158
Deferred tax liability		
– Accruals	–	–
– Deductible prepayments	4,608	2,532
	4,608	2,532
Net deferred tax asset	**15,387**	**19,626**
Movement in deferred tax charged to statement of comprehensive income	**4,238**	**(7,601)**

12 Trade and other payables

Trade creditors	48,726	38,272
Other creditors and accruals	26,201	8,799
	74,927	**47,071**

Notes to the financial statements continued

	Note	2011 $	2010 $
13 Borrowings			
Current:			
Lease liability	18	12,895	19,777
Non-current:			
Lease liability	18	37,390	45,791

	2011 $	2010 $
14 Provisions		
Current:		
Provision for annual leave	22,420	26,660
Provision for long service leave	19,426	24,500
Provision for annual bonus	36,830	26,557
	78,676	**77,717**
Non-Current:		
Provision for long service leave	9,604	9,500
	NO.	NO.
Number of employees at year end	**10**	**8**

	2011 $	2010 $
15 Contributed equity		
1,848,320 ordinary shares fully paid (2010: 924,160)	924,160	924,160
Less: equity raising expenses (Turramurra)	(40,196)	(40,196)
Less: equity raising expenses (Lindfield)	(12,000)	–
	871,964	**883,964**

Following an independent valuation of the company, bonus shares were issued to all shareholders on the basis of one new fully paid ordinary share for each fully paid ordinary share held on the record date, 6 June 2011.

Rights attached to shares

(a) *Voting Rights*

Subject to some limited exceptions, each member has the right to vote at a general meeting.

On a show of hands or a poll, each member attending the meeting (whether they are attending the meeting in person or by attorney, corporate representative or proxy) has one vote, regardless of the number of shares held. However, where a person attends a meeting in person and is entitled to vote in more than one capacity (for example, the person is a member and has also been appointed as proxy for another member) that person may only exercise one vote on a show of hands. On a poll, that person may exercise one vote as a member and one vote for each other member that person represents as duly appointed attorney, corporate representative or proxy.

The purpose of giving each member only one vote, regardless of the number of shares held, is to reflect the nature of the company as a community based company, by providing that all members of the community who have contributed to the establishment and ongoing operation of the **Community Bank**® Branch have the same ability to influence the operation of the company.

(b) *Dividends*

Generally, dividends are payable to members in proportion to the amount of the share capital paid up on the shares held by them, subject to any special rights and restrictions for the time being attaching to shares. The Franchise

Agreement with Bendigo and Adelaide Bank Limited contains a limit on the level of profits or funds that may be distributed to shareholders. There is also a restriction on the payment of dividends to certain shareholders if they have a prohibited shareholding interest (see below).

(c) *Transfer*

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

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

Prohibited shareholding interest

A person must not have a prohibited shareholding interest in the company. In summary, a person has a prohibited shareholding interest if they control or own 10% or more of the shares in the company (the "10% limit"). As with voting rights, the purpose of this prohibited shareholding provision is to reflect the community-based nature of the company.

Where a person has a prohibited shareholding interest, the voting and dividend rights attaching to the shares in which the person (and his or her associates) have a prohibited shareholding interest, are suspended.

The board has the power to request information from a person who has (or is suspected by the board of having) a legal or beneficial interest in any shares in the company or any voting power in the company, for the purpose of determining whether a person has a prohibited shareholding interest. If the board becomes aware that a member has a prohibited shareholding interest, it must serve a notice requiring the member (or the member's associate) to dispose of the number of shares the board considers necessary to remedy the breach. If a person fails to comply with such a notice within a specified period (that must be between three and six months), the board is authorised to sell the specified shares on behalf of that person. The holder will be entitled to the consideration from the sale of the shares, less any expenses incurred by the board in selling or otherwise dealing with those shares.

In the constitution, members acknowledge and recognise that the exercise of the powers given to the board may cause considerable disadvantage to individual members, but that such a result may be necessary to enforce the prohibition.

16 Retained earnings

	2011 $	2010 $
Balance at the beginning of the financial year	155,409	43,146
Net profit from ordinary activities after income tax	212,693	195,437
Dividends paid or provided for	(166,350)	(83,174)
Balance at the end of the financial year	**201,752**	**155,409**

Notes to the financial statements continued

	2011 $	2010 $
17 Statement of cashflows		
Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities		
Profit from ordinary activities after income tax	212,693	195,437
Non cash items:		
– depreciation	22,697	32,734
– amortisation	13,722	9,904
Changes in assets and liabilities:		
– (increase)/decrease in receivables	(16,535)	(11,951)
– (increase)/decrease in other assets	4,239	(7,601)
– increase/(decrease) in payables	15,856	(78,381)
– increase/(decrease) in provisions	1,063	16,750
– increase/(decrease) in current tax liabilities	(14,362)	–
Net cashflows provided by operating activities	**239,423**	**156,892**

18 Leases

Hire purchase commitments		
Payable — minimum lease payments		
— not later than 12 months	12,895	20,810
— between 12 months and 5 years	45,578	57,895
— greater than 5 years	–	–
Minimum lease payments	58,473	78,705
Less future finance charges	(8,188)	(13,137)
Present value of minimum lease payments	**50,285**	**65,568**

The hire purchase of security equipment, which commenced in June 2008, was a three year hire purchase which is now completed. Interest was recognised at an average rate of 12.49%.

The hire purchase of a motor vehicle, which commenced in December 2009, is a four year hire purchase. Interest is recognised at an average rate of 8.23%.

The hire purchase of a motor vehicle, which commenced in February 2010, is a four year hire purchase. Interest is recognised at an average rate of 7.84%.

Operating lease commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable — minimum lease payments		
— not later than 12 months	215,000	106,000
— between 12 months and 5 years	400,000	236,500
— greater than 5 years	–	–
	615,000	**342,500**

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

	2011	2010
	$	$

19 Auditors' remuneration

Amounts received or due and receivable by the auditor of the company for:		
– audit and review services	3,400	3,400
– non-audit services	23,072	2,184
	26,472	**5,584**

20 Director and related party disclosures

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

David Andrew Langdon
Allan Peter Millard
Roman Zeno Tarnawsky
Monika Stelzner
Michael James Cross *(appointed 22 November 2010)*
Linda June McDonald *(appointed 3 December 2010)*
William Raymond Nevill *(appointed 14 January 2011)*
Ian Langford-Brown *(appointed 23 May 2011)*
Gregory Alan Norris *(retired 16 November 2010)*
Ian Patrick Sweeney *(resigned 9 March 2011)*
Clive John Hodson *(resigned 11 March 2011)*
Ian McArthur Pont *(resigned 14 March 2011)*
Brett John Saunders *(appointed 6 June 2011, resigned 3 August 2011)*

Former director Ian Sweeney provides advertising on internet website 'www.searchmysuburb.com.au' free of charge to the company.

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

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

Directors' shareholdings

	2011	2010
David Andrew Langdon	30,002	15,001
Allan Peter Millard	–	–
Roman Zeno Tarnawsky	2,000	1,000
Monika Stelzner	5,000	2,500
Michael James Cross *(appointed 22 November 2010)*	–	–
Linda June McDonald *(appointed 3 December 2010)*	–	–
William Raymond Nevill *(appointed 14 January 2011)*	–	–
Ian Langford-Brown *(appointed 23 May 2011)*	–	–
Gregory Alan Norris	10,000	5,000
Ian Patrick Sweeney	20,000	10,000
Clive John Hodson	–	–
Ian McArthur Pont	2,000	1,000
Brett John Saunders *(appointed 6 June 2011, resigned 3 August 2011)*	–	–

Following an independent valuation of the company, bonus shares were issued to all shareholders on the basis of one new fully paid ordinary share for each fully paid ordinary share held on the record date, 6 June 2011.

Notes to the financial statements continued

21 Dividends paid or provided

A final dividend of 9 cents per share fully franked was paid in October 2010 in respect of the company's profit for the year ended on 30 June 2010. On 30 June 2011 a fully franked interim dividend of 4.5 cents was paid in respect of the period 1 July 2010 to 31 May 2011 on the total number of shares following the one for one bonus issue. The directors declared this interim dividend in order to reward the then current owners of the business for the continuing growth and profitability of the Turramurra **Community Bank**® Branch business during this period and the strength of the company's cash reserves. The directors do not intend to pay a final dividend in respect of the year to 30 June 2011.

	2011 $	2010 $
a) Dividends paid during the year		
Prior year final dividend (paid 31 October 2010)		
100% franked dividend (2010: 100%) – 9 cents (2010: 9 cents) per share	83,174	83,174
Current year interim dividend (paid 30 June 2011)		
100% (2010: 100%) franked dividend – 4.5 cents (2010: Nil cents) per share	83,174	–
b) Dividends proposed and not recognised as a liability		
Current year final dividend		
100% (2010: 100%) franked dividend – Nil cents (2010: 9 cents) per share	–	83,174

The tax rate at which dividends have been franked is 30% (2010: 30%).
Dividends proposed will be franked at a rate of 30% (2010:30%).

	2011 $	2010 $
c) Franking account balance		
Franking credits available for subsequent reporting periods are:		
– franking account balance as at the end of the financial year	157,270	123,189
– franking credits that will arise from payments of income tax payable as at the end of the financial year	7,314	18,319
– franking debits that will arise from the payment of dividends recognised as a liability at the end of the financial year	–	–
Franking credits available for future reporting periods	164,584	141,508
– franking debits that will arise from payment of dividends proposed or declared before the financial report was authorised for use but not recognised as a distribution to equity holders during the period	–	–
Net franking credits available	**164,584**	**141,508**

22 Key management personnel disclosures

No director of the company receives remuneration for services as a company director or committee member.
There are no executives within the company whose remuneration is required to be disclosed.

	2011 $	2010 $

23 Earnings per share

	2011 $	2010 $
(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	212,693	195,437
	NO.	NO.
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	984,927	924,160

24 Events occurring after the balance sheet date

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

25 Contingent liabilities

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

26 Segment reporting

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

27 Registered office/Principal place of business

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

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

28 Financial instruments

Net fair values

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

Credit risk

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

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

Interest rate risk

FINANCIAL INSTRUMENT	FLOATING INTEREST RATE		FIXED INTEREST RATE MATURING IN: 1 YEAR OR LESS		OVER 1 TO 5 YEARS		OVER 5 YEARS		NON INTEREST BEARING		WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	
	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $
Financial assets												
Cash assets	81,877	63,621	781,370	753,559	–	–	–	–	400	200	5.38	5.28
Receivables	–	–	–	–	–	–	–	–	119,674	109,707	N/A	N/A
Financial liabilities												
Interest bearing liabilities	–	–	12,895	19,777	37,390	45,791	–	–	–	–	8.02	8.41
Payables	–	–	–	–	–	–	–	–	78,039	47,071	N/A	N/A

Directors' declaration

In accordance with a resolution of the directors of Ku-ring-gai Financial Services Limited, we state that:

In the opinion of the directors:

(a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the company's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and

- (ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

(c) the audited remuneration disclosures set out in the remuneration report section of the directors' report comply with Accounting Standard *AASB124 Related Party Disclosures* and the Corporations Regulations 2001.

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

David A. Langdon

David A Langdon
Chairman

Ian Langford-Brown

Ian Langford-Brown
Director

Signed on the 8th day of August 2011

Independent audit report

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

Partners in success

Chartered Accountants

Independent Auditor's Report To The Members Of Ku-ring-gai Financial Services Limited

Report on the Financial Report

We have audited the accompanying financial report of Ku-ring-gai Financial Services Limited, which comprises the balance sheet as at 30 June 2011, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes and the Directors' Declaration.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

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

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

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Independent audit report continued

Independence

In conducting our audit we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion on the Financial Report

In our opinion:

1) The financial report of Ku-ring-gai Financial Services Limited is in accordance with the Corporations Act 2001 including giving a true and fair view of the company's financial position as at 30 June 2011 and of its financial performance and its cash flows for the year then ended and complying with Australian Accounting Standards and the Corporations Regulations 2001.

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

Report on the Remuneration Report

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Ku-ring-gai Financial Services Limited for the year ended 30 June 2011, complies with section 300A of the Corporations Act 2001.

DAVID HUTCHINGS
ANDREW FREWIN & STEWART
61-65 Bull Street, Bendigo, 3550

8th August 2011

Turramurra **Community Bank**® Branch
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