



**moving into the future
with two ku-ring-gai branches**

KU-RING-GAI FINANCIAL SERVICES LIMITED

ABN 56 103 129 184

ANNUAL REPORT 2012

Turrumurra and Lindfield
Community Bank® branches



KU-RING-GAI FINANCIAL SERVICES LIMITED

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ANNUAL REPORT 2012

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Chairman's report

It is my pleasure to report on the progress of Ku-ring-gai Financial Services Limited (the Company) during the year ended 30 June 2012.



David Langdon, Chairman

Highlights

The 2011/12 financial year was another extraordinarily busy and productive period for the Company, during which our Lindfield **Community Bank®** Branch was officially opened by the NSW Premier, The Hon. Barry O'Farrell and we became the first **Community Bank®** company to open a second **Community Bank®** branch in the Sydney metropolitan area.

This followed the successful completion of our Lindfield Prospectus capital-raising initiative whereby 146 local residents became new shareholders of the Company. The Company now has 526 shareholders.

Another exciting milestone was achieved when our cumulative returns to the community surpassed the \$1 million milestone. These financial contributions continue to support and strengthen our local community.

Our Turramurra **Community Bank®** Branch has continued to demonstrate its premier status by surpassing the \$200 million total portfolio milestone and remains the only **Community Bank®** branch in NSW to have achieved this level of business on the books.

Notwithstanding that Lindfield **Community Bank®** Branch was only open for 9 months, the combined portfolio growth of our Turramurra and Lindfield **Community Bank®** branches exceeded \$34 million during 2011/12. This represented an increase of 18% over 2010/11.

On the other hand, our 2011/12 revenue only increased by 11% to \$1.75 million.

This disparity in portfolio growth and revenue growth arose primarily from the reduced rates of commissions we

now receive from Bendigo and Adelaide Bank in respect of two important income streams which comprise in the order of \$100 million of our total portfolio.

These reduced commission rates result from the continuing pressure on margins across the Australian financial services industry which impacts on the Company due to our 50/50 profit-sharing arrangements with Bendigo and Adelaide Bank. Whilst we are protected from further reductions in these commission rates until 31 March 2013, another review will be conducted by Bendigo and Adelaide Bank at that time.

This year's profit result was also impacted by recent decisions taken by the Directors to bring forward the timing of the complete refurbishment of our Turramurra premises and to introduce a change in our accounting policies in regard to depreciation.

Table 1: Achievements during the past 12 months

DESCRIPTION	TURRAMURRA \$000	LINDFIELD \$000	2012 \$000	2011 \$000	CHANGE %
Revenue	1,660	93	1,754	1,584	11%
Net profit before tax	221	-374	-153	308	-150%
Net profit after tax	169	-264	-95	213	-145%
	\$ MILLION	\$ MILLION	\$ MILLION	\$ MILLION	
Total portfolio	202.8	20.8	223.6	189.3	18%
Total deposits	122.2	11.2	133.4	117.1	14%
Total loans	75.8	9.3	85.1	72.2	18%
Other	4.8	0.3	5.1	-	
	NO.	NO.	NO.	NO.	
Number of customers	3,296	332	3,628	3,353	8%
Number of accounts	5,476	449	5,925	5,444	9%
			\$000	\$000	
Community contributions:					
Sponsorship, donations			75.4	68.0	11%
Community grants			50.0	105.2	-52%
Total community contributions			125.4	173.2	-28%
Dividend per share			-	13.5 cents	
Total dividends			-	\$166,300	

Chairman's report continued

The Directors believe that it was appropriate and prudent to introduce these changes, notwithstanding the resultant adverse financial impact on our net profit before tax to the tune of \$137,000 in the 2011/12 financial year.

The overall impact of the costs associated with the start-up of our Lindfield operations, reduced commission rates and accounting charges and resulted in the Company incurring a net loss before tax of \$153,000 for the 2011/12 financial year which represented a significant turn-around from the net profit before tax of \$308,000 earned in 2010/11.

Table 1 summarises our achievements during the past 12 months.

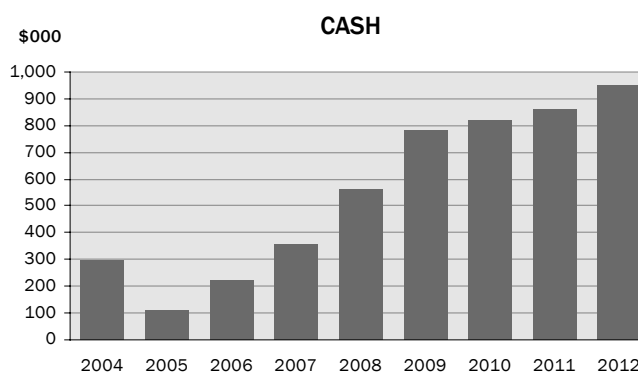
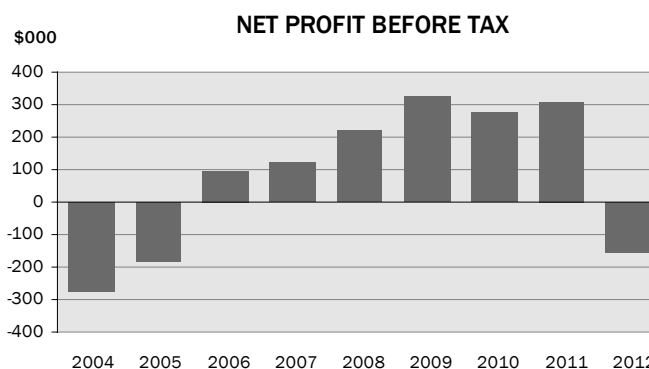
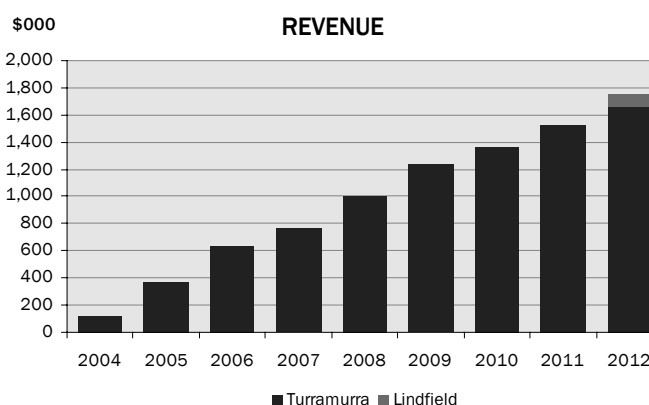
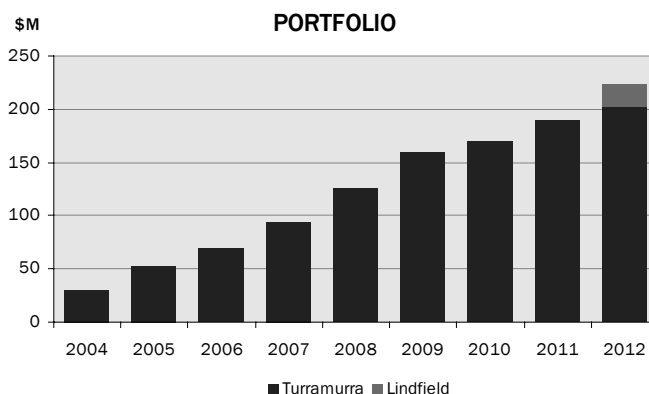
Operating results

As indicated above, our Turramurra and Lindfield **Community Bank®** branches finished the 2011/12 financial year with a combined portfolio of \$223 million and with 3,628 customers and 5,925 customer accounts on our books. As a consequence of portfolio growth in excess of \$34 million (18%) the Company's revenue from ordinary activities increased by \$170,000 (11%) to \$1.75 million during this period.

Whilst Lindfield **Community Bank®** Branch remains in start-up mode whereby substantial annual portfolio growth can be achieved, our Turramurra **Community Bank®** Branch is a mature business in its ninth year of operations. Accordingly, the run-off of our existing Turramurra portfolio is steadily increasing and more staff time is required to be directed towards maintaining the business of existing customers.

Furthermore, until the refurbishment is undertaken later this year, the size and design of our Turramurra premises remain constraints which limit 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 Turramurra and Lindfield **Community Bank**[®] Branch staff during this period was particularly pleasing.

The Company achieved a pre-tax loss of \$153,000 during this period inclusive of a profit of \$221,000 for Turramurra and a loss of \$374,000 for Lindfield.

This result is also after making community contributions of more than \$125,000 during this period.

After provision for income tax, the net loss attributable to members was \$95,000 which represents a reduction of \$307,000 from 2011.

Notwithstanding this loss, our balance sheet remains strong whereby our year-end cash reserves actually increased from \$861,000 to \$950,000 following the receipt of \$386,500 (net of costs of issuing shares) in new share capital from our Lindfield Prospectus.

Refurbishment of Turramurra premises

In May of this year the Board resolved to undertake the refurbishment of our Turramurra premises earlier than previously planned.

This decision was driven by the continuing growth of our Turramurra business and the desirability of operating identical state-of-the-art banking technologies in both of our branches in order to maximise staff flexibility and productivity.

In recognition that our previous accounting treatment in regard to depreciation of building fit-out costs would also be overtaken by this decision, the Directors also resolved to amend our accounting policies in the following manner:

- a. introduce an accelerated depreciation of capital fit-out costs for Turramurra and Lindfield based upon a 10 year life and thereby replace the 25 year life assumptions inherent in prevailing ATO tax rates, and
- b. write-off the previously capitalised costs of our Turramurra premises during the year-ended 30 June 2012.

These decisions adversely impacted our profit for the year ended 30 June 2012 by \$137,000.

Whilst the write-off of Turramurra's capitalised fit-out costs was a one-time charge against our 2011/12 profit, the higher rates of depreciation will result in higher annual depreciation expenses in future financial years.

Dividend payments

In recognition of the combined impact of Lindfield start-up costs and the imminent capital spending on the refurbishment of our Turramurra premises, the Directors have resolved to not pay a final dividend in respect of the year ended 30 June 2012.

Returning profits to our community

Bendigo and Adelaide Bank recently announced that thanks to the support of **Community Bank**[®] customers and shareholders, the Bank's Australia-wide network has now returned more than \$80 million to support and strengthen local communities.

Our Turramurra and Lindfield **Community Bank**[®] branches have played their role in this milestone by returning more than \$1 million to our local community since our Turramurra branch opened in October 2003.

Behind these statistics there are thousands of stories of how **Community Bank**[®] companies such as Ku-ring-gai Financial Services Limited are making a real difference to the lives of Australians by helping to improve the economic and social prospects of their local communities.



Gabrielle Phipps presents a Turramurra Community Grant to Barbara Pope and Rhoda Fowler representing Ku-ring-gai Netball Association

Chairman's report continued

Community Grants

Our Turrumurra and Lindfield **Community Bank®** branches again distributed a total of \$50,000 to local community groups at our Annual Community Grants Presentation night conducted in June 2012.

Ku-ring-gai Financial Services Limited has now distributed a total of \$175,000 to local recipients via our Community Grants Program during the past 4 years.

This year's Community Grants recipients were Erydene Historic House and Garden, Ku-ring-gai Netball Association, Ku-ring-gai Philharmonic Orchestra, Ku-ring-gai "Shed", Ku-ring-gai Youth Development Service (KYDS), Ku-ring-gai Youth Orchestra, Lifeline Harbour to Hawkesbury, Lifestart, Turrumurra Occasional Childcare Centre and Zonta Club of Hornsby Ku-ring-gai, plus the 1st Cromehurst, 2nd Pymble and West Pymble Scout groups.

Each of these community groups also appreciated the opportunity to tell their compelling stories and meet other like-minded community champions.

Sponsorships and donations

The Company also provided a total of \$75,400 in the form of sponsorship support and donations to a large number of youth, sporting and other local community groups.

The long list of recipients during 2011/12 included Banford Family Fund, Bobbin Head Cycle Classic,



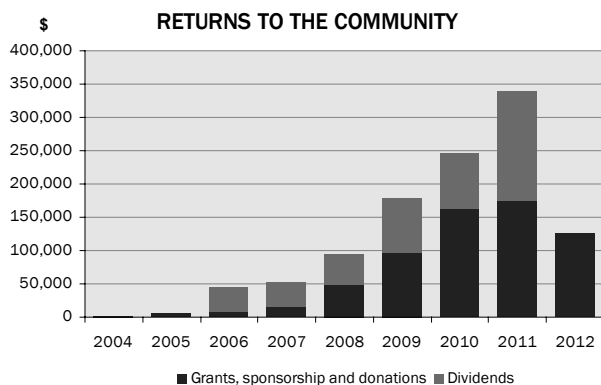
Sponsorship of the Community Service Support community bus

Community Service Support, Dial a Mum, East Roseville Bowling Club, Hamlin Fistula Hospital, Killara West Pymble Rugby, Kissing Point Sports Club, Ku-ring-gai Art Society, Ku-ring-gai Creative Arts High School, Ku-ring-gai Netball Association, Ku-ring-gai SES, Ku-ring-gai Youth Development Service (KYDS), KU Saddington Rd Preschool, Lifeline, Lindfield Bowling Club, Lindfield East Primary School, Lindfield Rugby Club, Michelles Back Yard Blitz, Mirrabooka Singers, Novus Foundation, Our Lady of Perpetual Succour School, Porsche's Rescue, Retina Australia, Rotary Lindfield, Rotary Turrumurra, Trish MS Foundation, Turrumurra High School, Turrumurra Public School, Warrawee Bowling Club, Warrawee Public School and World Youth Development.

The total contribution of \$125,400 provided by the Company to local clubs and community organisations



\$50,000 was again donated to local community groups at the Turrumurra Community Grants Presentation Night 2012



via Community Grants, Sponsorships and Donations during the past 12 months brings our cumulative contributions to local community groups to \$636,000.

Inclusive of our \$452,788 in dividends paid to date, the Company has now returned more than \$1.089 million to local residents and community groups since its inception.

Future initiatives:

Ku-ring-gai Community Grants

Notwithstanding the success associated with the past running of our annual Community Grants program in conjunction with Bendigo and Adelaide Bank's Community Enterprise Foundation, the Board has decided to undertake our future Community Grants initiatives via a new and innovative partnership with Ku-ring-gai Council.

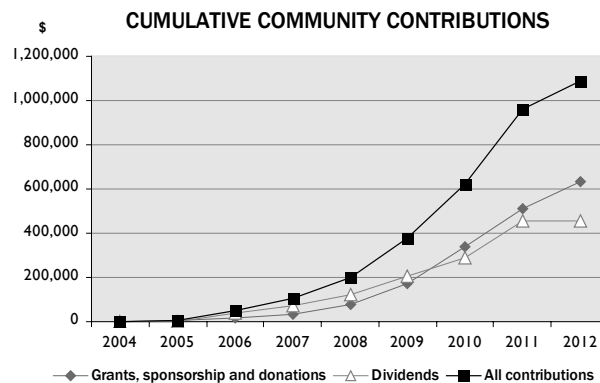
Under this new arrangement, the Company will co-sponsor Council's Ku-ring-gai Community Grants program which provides grants of up to \$5,000 each to local community groups.

The Company will increase the pool of funds available to \$150,000 per annum by contributing \$75,000 per annum to the program over the next 3 years.

In turn, the Company will have joint naming rights to the Ku-ring-gai Community Grants program and will receive positive publicity via our involvement in the presentation of these grants to the leaders and members of these local community groups.

Community Forums

A Community Forum is the bringing together of a cross section of representatives of community organisations - to identify projects and initiatives that will benefit our local community. These projects may be small, large, one-off or on-going and may be carried out in conjunction with other local community groups and/or



local, state or federal government.

Our Lindfield **Community Bank®** Branch is presently working with local community organisations in Roseville, Lindfield and Killara to bring together people with ideas and who wish to make them a reality. Our role will be to support and facilitate the process to identify and get these projects underway.

The inaugural Lindfield Community Forum will be conducted in September 2012 and will be followed by a Turramurra Forum in 2013.

HeroHQ Project

As previously reported, our Turramurra and Lindfield **Community Bank®** branches are currently involved in this community safety project which involves building and fitting-out new headquarters for our local SES and Bush Fire Brigade services.

The total capital cost of these 2 buildings is \$2.2 million which includes \$200,000 (presently unfunded) to fit-out these new premises with state-of-the-art technology, training facilities and improved staff amenities.



Construction of HeroHQ commences

Chairman's report continued

Our Turrumurra and Lindfield **Community Bank**[®] branches are providing leadership and co-ordination to raise this \$200,000 from the public, including directly contributing up to \$100,000 on a dollar-for-dollar basis.

The Company has already made this \$100,000 financial contribution to the Community Enterprise Foundation account for this purpose.

Shareholders and local residents who wish to support this initiative can make their tax-deductible donations to this **HeroHQ** initiative at our Turrumurra or Lindfield **Community Bank**[®] branches or on-line.

Youth Observer program

Your Directors are also continuing to invest significant time and effort in the development of the youth of our community through our highly-acclaimed Youth Observer program.

Since 2005, the Company has provided an opportunity for two year 11 students from Turrumurra High School to gain exposure and insights into the running of a public company as Youth Observers on our Board of Directors.

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

Our Youth Observer program also encourages and helps to prepare our participants to serve their

community on a voluntary basis in the future and develops a stronger sense of community spirit.

In conjunction with our expanded presence in the Lindfield community, two year 11 students from Killara High School were added to our Youth Observer program for 2011/12.

Our 2012/13 Youth Observers are Holly Worrad and Jessica McDonagh from Turrumurra High School plus Gabriella Turner and Robert Ashcroft from Killara High School.

Each of these new Youth Observers has already gained significant business and community insights by their attendance at Board Meetings, their participation in the Company's recent Community Grants Presentation night and the planning activities associated with our inaugural Community Forum event.

They also attended the 2012 **Community Bank**[®] National Conference in Melbourne as official Company delegates, including the full-day *Future Leaders Forum* held in conjunction with the Conference.

Outlook and aspirations

Your Directors have again budgeted for strong portfolio growth outcomes to be achieved by our Turrumurra and Lindfield **Community Bank**[®] branches during 2012/13.

Our confidence in doing so has been reinforced by the excellent portfolio growth achieved by both branches during June 2012.

Furthermore, the Directors are also confident that our modernised Turrumurra **Community Bank**[®] Branch will provide a better environment for our staff to deepen their engagement and relationships with existing and prospective customers, whilst Lindfield branch will benefit from newly-appointed Warren Dwyer's proven leadership capabilities as Branch Manager.

Portfolio growth flows directly into revenue growth and increased profitability.

Accordingly, the Directors expect the Company to achieve a modest net profit before tax from the combined operation of our Turrumurra and Lindfield businesses during fiscal 2012/13, albeit less than the forecast contained in our Lindfield Prospectus.



Holly Worrad, Jessica McDonagh, Robert Ashcroft and Gabriella Turner at the 2012 Community Grants Presentation night

Acknowledging our staff

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

As previously mentioned, we also welcomed Warren Dwyer as Lindfield Branch Manager in late June. Warren is passionate about supporting the local community and has more than 25 years of retail banking experience and a proven track record in managing successful bank branches.

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.

Directors' contributions

As in recent years, the Directors have continued to meet on a monthly basis, with the exception of December, to plan and monitor the operations of our expanded and increasingly complex business.

We also conducted our annual Strategy Meeting during February 2012 to which our staff were invited and which was extended this year to one and a half days. This year's meeting focussed on maximising the growth opportunities for our Lindfield business. The meeting also assisted in the establishment of our budgets, plans and strategic imperatives and priorities for the 2012/13 financial year.

We were delighted to welcome Christopher Williamson as a new director in October 2011. Chris is a Chartered Accountant and an Owner/Director of a software business based in Pymble. He brings business development and IT experience to the Board including specialised knowledge and experience in social media and web-site development. Chris has also assumed responsibility for our Youth Observer program.



Chris Williamson with Gladys Berejiklian MP, NSW Member for Willoughby and Matt Kean MP, NSW Member for Hornsby at the launch of the North Shore Chamber Alliance

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

These contributions have enabled the Company to successfully manage our fast-growing business, launch our Lindfield **Community Bank®** Branch and deliver another year of positive outcomes during 2011/12.

Indeed, a strong foundation has been laid for the Company's continued expansion and success during 2012/13 and beyond.

Bendigo and Adelaide Bank

Our relationship with Bendigo and Adelaide Bank Limited remains very strong and I again thank the NSW/ACT Manager Phil Jones, our Regional Manager Alex Hughes, Business Banking Manager Serene Tansley, John Chandler and Michael Wood from Community Strengthening and their 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 was particularly important and welcomed.

It is also noteworthy that Bendigo and Adelaide Bank has joined Australia's A-rated banks following an upgrade announced by Standard and Poor's (S&P) in December 2011. S&P's decision means that Bendigo

Bank is now rated "A" by all three of the world's leading credit rating agencies.

Furthermore, Bendigo and Adelaide Bank is one of only a few banks in the world to have received a rating upgrade since the advent of the Global Financial Crisis.

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 Bendigo and Adelaide Bank's business model.

The attendance of more than 800 delegates representing 276 **Community Bank**[®] branches at the 2011 National **Community Bank**[®] Conference conducted in Sydney is testimony to the continuing support for this model.

Conclusion

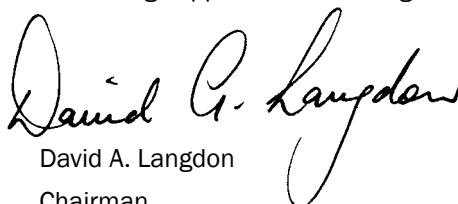
As we approach our 9th anniversary, the Turramurra **Community Bank**[®] Branch continues to be one of the best performing and highly-regarded branches in the **Community Bank**[®] branch network across Australia and our Lindfield **Community Bank**[®] Branch has already made a strong start.

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

I also remind you that your support as a customer remains invaluable in ensuring our future success, as it is our customers' banking activity that will ultimately determines the level of our future returns to the Ku-ring-gai community.

I look forward to seeing as many shareholders as possible at our Tenth Annual General Meeting which will be conducted at the Turramurra Bowling Club commencing at 7:00pm on 15 November 2012.

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



David A. Langdon
Chairman

Senior Community Bank Manager's report

EXCITING, CHALLENGING & SUCCESSFUL!

The past twelve months have been all of the above!

We opened a second **Community Bank**[®] branch for the Ku-ring-gai community in a year where all the banks faced a challenging market. The market for real estate, lending in particular was static and interest rates fell, making deposits hard fought for. We drew upon the **Community Bank**[®] point of difference and its value proposition – that we reinvest our profits in the community – and that we have staff devoted to providing above and beyond exceptional customer service.

It is always a pleasure when I attend one of our many sponsored community events to hear compliments about our friendly and efficient staff.

The Turramurra **Community Bank**[®] Branch staff were instrumental in the contribution of the initial start up business on the books for the Lindfield **Community Bank**[®] Branch. They also supported and encouraged the new staff members with their training.

I am extremely proud of the efforts of all the staff to ensure that the two branches exceeded a total portfolio as at 30 June 2012 of over \$220 million with the total business growing in excess of \$30 million.

On 25 June 2012 we welcomed Warren Dwyer as the Branch Manager of the Lindfield **Community Bank**[®] Branch. Warren has a challenging and busy year ahead but we all feel confident that, given his 26 years of banking experience and his great team, the Branch will continue in the successful footsteps of the Turramurra **Community Bank**[®] Branch.

This will only be possible if our shareholders and customers continue to move their business and do more personal or business banking at their locally-owned **Community Bank**[®] branch and recommend us to their family and friends when the opportunity arises. If this happens, then the over \$1 million in investment returned back to our community will increase. Imagine the impact and difference this is contributing to Ku-ring-gai!

During the coming year, prior to our 9th birthday in October 2012, the Turramurra Branch will be refurbished. The two branches are “branches of the future” and offer fast, efficient banking transaction services including automated, free standing coin counting machines.

My sincere thanks to all the staff at the Turramurra and Lindfield **Community Bank**[®] branches for what has been a truly amazing year and to the KFSL Directors for your continued support and encouragement.



Denice Kelly
Senior Manager



Staff of the new Lindfield branch: Clive Onley, Brenda Naylor, Branch Manager Warren Dwyer, Rosalie Aldrich and Vikki Atkins



Directors' report

Your directors submit the financial report of the company for the financial year ended 30 June 2012.

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

David Andrew Langdon

Retired

David is a Fellow of the Australian Institute of Company Directors and a Member of the Australian Society of Certified Practising 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.



Michael James Cross

Pharmacist

BPharm, Dip Hospital Pharmacy

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



Ian Langford-Brown

Chartered Accountant

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



Linda June McDonald

Business Consultant

BSc, AFAIM, FAITD

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.



Allan Peter Millard

Management Consultant

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.



DIRECTOR'S DETAILS

William Raymond Nevill

Retired



Whilst actively involved with several sporting clubs within the area, Bill followed a career for over forty years within the paper industry both within Australia and overseas. During that time he became a graduate of the Australian Administrative Staff College, Mt. Eliza, and also of the International Marketing Institute of Australia. He spent some time as a member of the Institute of Public Affairs and served for some years on the board of PATEFA NSW (Printing and Allied Trades Employers' Federation of Australia). Bill became CEO of several companies within the industry including Collins Diaries and Collins Olympic Australia. In latter years he spent a great deal of his time establishing manufacturing companies in both Indonesia and China together with their customer bases in North America, Europe and Australia. Now principally retired, Bill is the former Chairman of the Lindfield Community Bank Branch Project Steering Committee.

COMMITTEE RESPONSIBILITIES

Marketing Committee

Community Engagement Committee

Business Engagement Committee

Monika Stelzner

Accountant

BBus, MBA, CPA



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.

Governance Committee

Finance Committee

Community Engagement Committee

Business Engagement Committee

Roman Zeno Tarnawsky

Management Consultant, retail marketing and logistics

GAICD, Grad.Dip.Mgmt. Admin, Dip Mech Engineering,

Dip Civil Engineering

Roman has lived in Turrumurra 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.

Convenor, Strategic Planning Committee

Community Engagement Committee

Business Engagement Committee

Christopher Bradley Williamson

(appointed 13 October 2011)

IT Business Owner

BCom (Economics and Business Law)

Chris is our newest director and brings business development and IT experience to the Board, as well as a Gen Y perspective. After working in finance and IT whilst studying for his Bachelor of Commerce, majoring in Economics and Business Law at Macquarie University, Chris founded his own software business based in Pymble.

Marketing Committee

Business Engagement Committee



Brett John Saunders *(resigned 3 August 2011)*

Solicitor

Directors were in office for this entire year unless otherwise stated.

No director has 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 two franchised branches of Bendigo and Adelaide Bank Limited in Turrumurra and Lindfield, New South Wales.

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

YEAR ENDED 30 JUNE 2012	YEAR ENDED 30 JUNE 2011
\$	\$
(94,751)	212,693

Remuneration report

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

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

There are therefore no specified executives whose remuneration requires disclosure.

Dividends

No dividends were declared or paid for the current year.

An interim dividend of 4.5 cents per share was paid on 30 June 2011 in respect of the year ended 30 June 2011. As anticipated in the financial statement for the year ended 30 June 2011, a final dividend was not paid.

Significant changes in the state of affairs

During the year a second **Community Bank**[®] branch in Lindfield, New South Wales was opened. 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 **Community Bank**[®] branches in Turrumurra and 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	12	12	10	5
Michael James Cross	12	8	–	–
Ian Langford-Brown	12	10	–	–
Linda June McDonald	12	12	–	–
Allan Peter Millard	12	11	10	10
William Raymond Nevill	12	9	10	6
Monika Stelzner	12	11	10	8
Roman Zeno Tarnawsky	12	9	10	5
Christopher Bradley Williamson	9	8	–	–
Brett John Saunders	1	–	1	–

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

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:

Directors' report continued

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

Auditor's independence declaration

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

Signed in accordance with a resolution of the board of directors at Turramurra, New South Wales
on 20 August 2012.



David A Langdon
Chairman



Ian Langford-Brown
Director

Auditor's independence declaration



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 2012 there have been no contraventions of:

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

A handwritten signature in black ink, appearing to read 'David Hutchings'.

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

Dated: 20 August 2012

Statement of comprehensive income

for the year ended 30 June 2012

	NOTES	2012 \$	2011 \$
Revenues from ordinary activities	4	1,753,758	1,583,685
Employee benefits expense		(882,882)	(601,577)
Charitable donations, sponsorships, advertising and promotion		(188,099)	(216,069)
Occupancy and associated costs		(260,566)	(154,020)
Systems costs		(124,851)	(71,127)
Depreciation and amortisation expense	5	(209,853)	(36,469)
Finance costs	5	(3,746)	(4,690)
General administration expenses		(236,332)	(191,791)
Profit/(loss) before income tax benefit/(expense)		(152,571)	307,942
Income tax benefit/(expense)	6	57,820	(95,249)
Profit/(loss) after income tax benefit/(expense)		(94,751)	212,693
Total comprehensive income for the year		(94,751)	212,693
		¢	¢
Earnings/(loss) per share (cents per share)			
– basic for profit/(loss) for the year	23	(4.47)	21.59

The accompanying notes form part of these financial statements.

Balance sheet

as at 30 June 2012

	NOTES	2012 \$	2011 \$
ASSETS			
Current Assets			
Cash and cash equivalents	7	949,738	861,397
Trade and other receivables	8	153,342	149,401
Current tax asset	11	57,292	–
Total Current Assets		1,160,372	1,010,798
Non-Current Assets			
Property, plant and equipment	9	332,425	236,201
Intangible assets	10	86,354	32,136
Deferred tax assets	11	78,738	15,387
Total Non-Current Assets		497,517	283,724
Total Assets		1,657,889	1,294,522
LIABILITIES			
Current Liabilities			
Trade and other payables	12	130,677	74,927
Current tax liabilities	11	–	7,314
Borrowings	13	12,895	12,895
Provisions	14	109,460	78,676
Total Current Liabilities		253,032	173,812
Non-Current Liabilities			
Borrowings	13	28,241	37,390
Provisions	14	11,090	9,604
Total Non-Current Liabilities		39,331	46,994
Total Liabilities		292,363	220,806
Net Assets		1,365,526	1,073,716
EQUITY			
Issued capital	15	1,258,525	871,964
Retained earnings	16	107,001	201,752
Total Equity		1,365,526	1,073,716

The accompanying notes form part of these financial statements.

Statement of changes in equity

for the year ended 30 June 2012

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

The accompanying notes form part of these financial statements.

Statement of cash flows

for the year ended 30 June 2012

	NOTES	2012 \$	2011 \$
Cash Flows From Operating Activities			
Receipts from customers		1,871,433	1,447,736
Payments to suppliers and employees		(1,756,597)	(1,144,074)
Interest received		42,271	45,824
Interest paid		(3,746)	(4,690)
Income taxes paid		(70,137)	(105,373)
Net cash provided by operating activities	17	83,224	239,423
Cash Flows From Investing Activities			
Payments for property, plant and equipment		(280,295)	(13,722)
Payments for intangible assets		(80,000)	-
Net cash used in investing activities		(360,295)	(13,722)
Cash Flows From Financing Activities			
Proceeds from issues of shares		402,765	-
Payment for share issue costs		(28,204)	-
Repayment of borrowings		(9,149)	(15,282)
Dividends paid		-	(166,352)
Net cash used in financing activities		365,412	(181,634)
Net increase in cash held		88,341	44,017
Cash and cash equivalents at the beginning of the financial year		861,397	817,380
Cash and cash equivalents at the end of the financial year	7(a)	949,738	861,397

The accompanying notes form part of these financial statements.

Notes to the financial statements

for the year ended 30 June 2012

1 Summary of significant accounting policies

a) *Basis of preparation*

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standard Boards and the Corporations Act 2001. The company is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

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

Critical accounting estimates

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

Historical cost convention

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

Comparative figures

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

Adoption of new and revised Accounting Standards

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. The adoption of the revised AASB 124 Related Party Disclosures has not resulted in the disclosure of any additional related party transactions in the current period or any prior period and is not likely to affect future periods. The adoption of AASB 1054 Australian Additional Disclosures and AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project have not affected the disclosure of any items in the financial statements.

The company has not elected to apply any pronouncements before their mandatory operative date in the annual reporting period beginning 1 July 2011.

Economic dependency – Bendigo and Adelaide Bank Limited

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

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

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

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

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 been 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. Whilst we are protected from further reductions in these commission rates until 31 March 2013, another review will be conducted by Bendigo Bank at that time.

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.

Notes to the financial statements continued

1 Summary of significant accounting policies continued

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 using the straight line method based on expected useful life. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

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

- leasehold improvements 10 - 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.

Notes to the financial statements continued

1 Summary of significant accounting policies continued

k) Financial instruments continued

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 or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

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

n) 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.

(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.

Notes to the financial statements continued

2 Financial risk management continued

(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 2012 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

2012	2011
\$	\$

4 Revenue from ordinary activities

Operating activities:

- margin income	1,093,699	911,197
- services commissions	613,100	618,186
- other revenue	8,100	3,073
Total revenue from operating activities	1,714,899	1,532,456

Non-operating activities:

- interest received	38,859	51,229
Total revenue from non-operating activities	38,859	51,229
Total revenues from ordinary activities	1,753,758	1,583,685

5 Expenses

Depreciation of non-current assets:

- motor vehicle	7,682	7,682
- furniture and equipment	7,330	3,452
- computer software	3,435	-
- leasehold improvements	27,968	11,563
- write down of leasehold improvements ¹	102,806	-
- write down of leasehold improvements ²	34,849	-

Amortisation of non-current assets:

- franchise agreement	3,795	2,295
- franchise renewal fee	21,988	11,477
	209,853	36,469

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

(2) In May 2012, the directors committed to a new fitout of the Turramurra premises to the standard of equipment and fittings appropriate to current banking practices and consistent with Lindfield branch facilities. The new fitout is expected to be completed before the end of October 2012. The remaining written down value of the existing Turramurra fitout, less carrying value for 4 months July to October 2012 (\$41,725 less \$6876) was expensed in the current period.

Finance costs:

- interest paid	3,746	4,690
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Bad debts	1,907	101
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	2012	2011
	\$	\$
6 Income tax expense		
The components of tax expense comprise:		
– Current tax	19,272	93,254
– Movement in deferred tax	(63,351)	4,238
– Recoupment of prior year tax loss	(13,741)	(2,243)
	(57,820)	95,249
The prima facie tax on profit/(loss) from ordinary activities before income tax is reconciled to the income tax expense as follows:		
Operating profit/(loss)	(152,571)	307,942
Prima facie tax on profit from ordinary activities at 30%	(45,771)	92,383
Add tax effect of:		
– non-deductible expenses	3,603	5,354
– timing difference expenses	63,351	(4,238)
– other deductible expenses	(1,911)	(245)
	19,272	93,254
Movement in deferred tax 11	(63,351)	4,238
Over provision of tax in the prior period	(13,741)	(2,243)
	(57,820)	95,249
7 Cash and cash equivalents		
Cash at bank and on hand	272,832	80,027
Term deposits	676,906	781,370
	949,738	861,397
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	272,832	80,027
Term deposits	676,906	781,370
	949,738	861,397
8 Trade and other receivables		
Trade receivables	139,994	132,042
Other receivables and accruals	8,068	10,480
Prepayments	5,280	4,879
Refundable deposit	–	2,000
	153,342	149,401

Notes to the financial statements continued

	2012 \$	2011 \$
9 Property, plant and equipment		
Office furniture and equipment		
At cost	93,074	41,540
Less accumulated depreciation	(24,742)	(13,977)
	68,332	27,563
Leasehold improvements		
At cost	465,639	236,879
Less accumulated depreciation	(244,151)	(78,528)
	221,488	158,351
Motor vehicle		
At cost	61,287	61,287
Less accumulated depreciation	(18,682)	(11,000)
	42,605	50,287
Total written down amount	332,425	236,201
Movements in carrying amounts:		
<i>Office furniture and equipment</i>		
Carrying amount at beginning	27,563	27,639
Additions	51,534	3,432
Disposals	–	–
Less: depreciation expense	(10,765)	(3,508)
Carrying amount at end	68,332	27,563
<i>Leasehold improvements</i>		
Carrying amount at beginning	158,351	159,518
Additions	229,960	10,340
Disposals	(1,141)	–
Less: depreciation expense	(28,027)	(11,507)
Write down of carrying value ¹	(102,806)	–
Expense carrying value ²	(34,849)	–
Carrying amount at end	221,488	158,351
<i>Motor vehicle</i>		
Carrying amount at beginning	50,287	57,969
Additions	–	–
Disposals	–	–
Less: depreciation expense	(7,682)	(7,682)
Carrying amount at end	42,605	50,287
Total written down amount	332,425	236,201

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

(2) In May 2012, the directors committed to a new fitout of the Turramurra premises to the standard of equipment and fittings appropriate to current banking practices and consistent with Lindfield branch facilities. The new fitout is expected to be completed before the end of October 2012. The remaining written down value of the existing Turramurra fitout, less carrying value for 4 months July to October 2012 (\$41,725 less \$6876) was expensed in the current period.

	2012 \$	2011 \$
10 Intangible assets		
Franchise fee		
At cost	81,477	71,477
Less: accumulated amortisation	(69,916)	(66,120)
	11,561	5,357
Renewal processing fee		
At cost	57,385	57,385
Less: accumulated amortisation	(42,082)	(30,606)
	15,303	26,779
Franchise establishment fee		
At cost	70,000	-
Less: accumulated amortisation	(10,510)	-
	59,490	-
Total written down amount	86,354	32,136
11 Tax		
Current:		
Income tax payable/(refundable)	(57,292)	7,314
Non-current:		
<i>Deferred tax asset</i>		
- Accruals	2,160	4,560
- Employee provisions	36,164	15,435
- Property, plant and equipment	44,118	-
	82,442	19,995
<i>Deferred tax liability</i>		
- Accruals	2,120	-
- Deductible prepayments	1,584	4,608
	3,704	4,608
Net deferred tax asset	78,738	15,387
Movement in deferred tax charged to statement of comprehensive income	(63,351)	4,238
12 Trade and other payables		
Trade creditors	122,205	48,726
Other creditors and accruals	8,472	26,201
	130,677	74,927

Notes to the financial statements continued

2012	2011
\$	\$

13 Borrowings

Current:

Lease liability	18	12,895	12,895
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Non-current:

Lease liability	18	28,241	37,390
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14 Provisions

Current:

Provision for annual leave	32,360	22,420
Provision for long service leave	31,600	19,426
Provision for annual bonus	45,500	36,830
	109,460	78,676

Non-Current:

Provision for long service leave	11,090	9,604
----------------------------------	--------	-------

NO.	NO.
13	10

Number of employees at year end

15 Contributed equity

1,848,320 ordinary shares fully paid (2011: 1,848,320)	924,160	924,160
402,765 shares issued pursuant to Prospectus dated 8 August 2011	402,765	-
Less: equity raising expenses (Turramurra)	(40,196)	(40,196)
Less: equity raising expenses (Lindfield)	(28,204)	(12,000)
	1,258,525	871,964

Rights attached to shares

(a) Voting Rights

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

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

The purpose of giving each member only one vote, regardless of the number of shares held, is to reflect the nature of the company as a community based company, by providing that all members of the community who have

contributed to the establishment and ongoing operation of the **Community Bank[®]** have the same ability to influence the operation of the company.

(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.

	2012	2011
	\$	\$
16 Retained earnings		
Balance at the beginning of the financial year	201,752	155,409
Net profit from ordinary activities after income tax	(94,751)	212,693
Dividends paid or provided for	–	(166,350)
Balance at the end of the financial year	107,001	201,752

Notes to the financial statements continued

2012	2011
\$	\$

17 Statement of cashflows

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

Profit/(loss) from ordinary activities after income tax	(94,751)	212,693
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Non cash items:

- depreciation	184,070	22,697
- amortisation	25,783	13,722

Changes in assets and liabilities:

- (increase)/decrease in receivables	(3,941)	(16,535)
- (increase)/decrease in other assets	(120,643)	4,239
- increase/(decrease) in payables	67,750	15,856
- increase/(decrease) in provisions	32,270	1,063
- increase/(decrease) in current tax liabilities	(7,314)	(14,362)

Net cashflows provided by operating activities	83,224	239,423
-------------------------------------------------------	---------------	----------------

18 Leases

Finance lease commitments

Payable — minimum lease payments

— not later than 12 months	12,895	12,895
— between 12 months and 5 years	32,684	45,578
— greater than 5 years	-	-

Minimum lease payments	45,579	58,473
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Less future finance charges	(4,443)	(8,188)
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Present value of minimum lease payments	41,136	50,285
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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	220,000	215,000
— between 12 months and 5 years	180,000	400,000
— greater than 5 years	-	-

400,000	615,000
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Each premises lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance.

2012	2011
\$	\$

19 Auditors' remuneration

Amounts received or due and receivable by the auditor of the company for:

- audit and review services	3,900	3,400
- non-audit services	7,680	23,072
	11,580	26,472

20 Director and related party disclosures

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

David Andrew Langdon

Michael James Cross

Ian Langford-Brown

Linda June McDonald

Allan Peter Millard

William Raymond Nevill

Monika Stelzner

Roman Zeno Tarnawsky

Christopher Bradley Williamson (*appointed 13 October 2011*)

Brett John Saunders (*resigned 3 August 2011*)

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

David Andrew Langdon	30,002	30,002
Michael James Cross	10,000	-
Ian Langford-Brown	3,000	-
Linda June McDonald	6,000	-
Allan Peter Millard	1,000	-
William Raymond Nevill	1,000	-
Monika Stelzner	10,000	5,000
Roman Zeno Tarnawsky	2,000	2,000
Christopher Bradley Williamson (<i>appointed 13 October 2011</i>)	-	-
Brett John Saunders (<i>resigned 3 August 2011</i>)	-	-

21 Dividends paid or provided

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 Turrumurra **Community Bank**[®] Branch business during this period and the strength of the company's cash reserves. The directors did not pay a final dividend in respect of the year to 30 June 2011.

Notes to the financial statements continued

	2012	2011
	\$	\$
21 Dividends paid or provided continued		
a) Dividends paid during the year		
Prior year final dividend		
100% (2011: 100%) franked dividend – 0 cents (2011: 9 cents) per share	–	83,174
Current year interim dividend		
100% (2011: 100%) franked dividend – 0 cents (2011: 4.5 cents) per share	–	83,174
b) Dividends proposed and not recognised as a liability		
Current year final dividend		
100% (2011: 100%) franked dividend – Nil cents (2011: Nil cents) per share	–	–

The tax rate at which dividends have been franked is 30% (2011: 30%).

Dividends proposed will be franked at a rate of 30% (2011:30%).

c) Franking account balance

Franking credits available for subsequent reporting periods are:

– franking account balance as at the end of the financial year	21(d)	227,408	157,270
– franking credits/(debits) that will arise from payments of income tax payable as at the end of the financial year		(57,292)	7,314
– franking debits that will arise from the payment of dividends recognised as a liability at the end of the financial year		–	–
Franking credits available for future reporting periods		170,116	164,584
– franking debits that will arise from payment of dividends proposed or declared before the financial report was authorised for use but not recognised as a distribution to equity holders during the period		–	–
Net franking credits available		170,116	164,584

d) Reconciliation of franking account balance

Reconciliation of franking account balance as at the end of the financial year

Opening balance	157,270	123,189
– franking credits from the payment of income tax instalment during the year	102,054	115,046
– franking debits from the refund of income tax following lodgement of income tax return	(31,916)	(9,673)
– franking debits from the payment of fully franked dividends	–	(71,292)
Closing balance	227,408	157,270

22 Key management personnel disclosures

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

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

23 Earnings per share

(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share

	(94,751)	212,693
	NO.	NO.

(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share

	2,118,384	984,927
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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 Turrumurra and Lindfield, 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

1273 Pacific Highway
Turrumurra NSW 2074

Principal place of business

1273 Pacific Highway
Turrumurra NSW 2074

28 Financial instruments

Net fair values

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

Credit risk

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

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

Interest rate risk

FINANCIAL INSTRUMENT	FLOATING INTEREST RATE		FIXED INTEREST RATE MATURING IN						NON INTEREST BEARING		WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	
			1 YEAR OR LESS		OVER 1 TO 5 YEARS		OVER 5 YEARS					
	2012 \$	2011 \$	2012 \$	2011 \$	2012 \$	2011 \$	2012 \$	2011 \$	2012 \$	2011 \$	2012 \$	2011 \$
Financial assets												
Cash assets	272,432	79,627	676,906	781,370	-	-	-	-	400	400	4.31	5.38
Receivables	-	-	-	-	-	-	-	-	139,994	119,674	N/A	N/A
Financial liabilities												
Interest bearing liabilities	-	-	12,895	12,895	28,241	37,390	-	-	-	-	8.02	8.02
Payables	-	-	-	-	-	-	-	-	117,204	78,039	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:

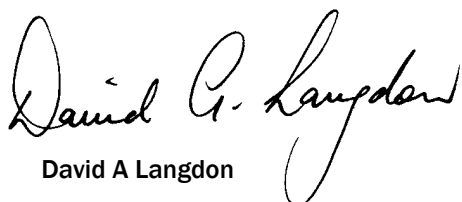
(i) giving a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the financial year ended on that date; and

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


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

(c) the audited remuneration disclosures set out in the remuneration report section of the directors' report comply with Accounting Standard AASB174 Related Party Disclosures and the Corporations Regulations 2001.

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



David A Langdon
Chairman



Ian Langford-Brown
Director

Signed on the 20th of August 2012

Independent audit report

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



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 2012, 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.

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

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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 2012 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 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.



David Hutchings
Andrew Frewin Stewart
61 Bull Street Bendigo Vic 3550

Dated: 20 August 2012

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PO Box 430 Turramurra NSW 2074
ABN 56 103 129 184