Mount Gambier & District **Community Bank®** Branch

annual report 2012

Mount Gambier & District
Financial Services Limited

ABN 42 096 059 997

Contents

Chairman's report	**2**
Manager's report	**4**
Bendigo and Adelaide Bank report	**5**
Directors' report	**7**
Financial statements	**11**
Notes to the financial statements	**15**
Directors' declaration	**32**
Detailed financials	**33**
Auditor's independence declaration	**36**
Independent audit report	**37**

Chairman's report

For year ending 30 June 2012

It is again my privilege to report about the progress of our company, Mount Gambier & District Financial Services Limited, the franchise holder licensed to operate your local **Community Bank®** branch over the last financial year.

Operating results

In February this year and after a major refurbishment at a cost to date of $100,670 we consolidated our operations at the James Street branch address. The refurbishment was carried out in line with Bendigo and Adelaide Bank policy. The new branch now occupies the whole of the premises, previously occupied by Adelaide Bank and Mutual Community (now Bupa) and I am sure we can all be pleased with the result.

The purchase by Mount Gambier & District Financial Services Limited of the corporate branch previously trading from James Street has continued to provide us with a substantial increase in our operating profit, which as at 30 June 2012 before tax stood at $344,279, an increase of $60,644 from the previous year. The Board determined that it was appropriate to reduce the loan principal outstanding to Bendigo and Adelaide Bank borrowed to purchase the former Adelaide Bank branch and the sum of $50,000 was applied towards reduction of the principal.

We have been able to increase our community investment to $121,027 including $60,000 invested in the Community Enterprise Foundation™, which is an increase of $22,769 over the previous year whilst retaining the sum of $185,138 in cash reserves. This is an excellent result keeping in mind the amount expended on refurbishing costs which have been fully paid for and has again enabled us to declare a substantial dividend payment to our loyal shareholders.

Our Penola Agency managed through TDC Stock Agents in Penola has continued to grow its book providing a growing dividend to our bottom line. It is expected that Penola itself will shortly be in a position to open its own **Community Bank®** branch when the footings generated there by our **Community Bank®** branch will be transferred upon the payment of an appropriate fee to Mount Gambier & District Financial Services Limited.

Dividend payment

It is again with considerable satisfaction that the Board is able to declare a further fully franked dividend to shareholders of 10% of the nominal value of our shares.

Directors contribution

I again thank the Directors for their efforts over the past 12 months and in particular the committee responsible for overseeing the branch refurbishment which has involved considerable extra time and effort by those concerned.

Attendances to State and National **Community Bank®** conferences continues to generate new ideas for expanding and growing our **Community Bank®** branch with the principle aim of increasing the dividend to our local community and to maintain a strong dividend to our loyal shareholders.

Acknowledgement of staff

The Board particularly wishes to thank our Manager Tracy Koop for overseeing the amalgamation of two branches into one and all the staffing issues that this has entailed. We have been able to reduce our total staffing through careful management and discretion on her part. The Board now believes we are served by a strong team of loyal employees, who continue to stand apart as friendly and helpful to all our customers and they are always willing to provide a little bit extra of their time and efforts to promote the aims of our **Community Bank®** branch.

Chairman’s report (continued)

It was with heartfelt pride that I and others on our Board attended the Red Cross presentation to our staff as winners of the National Red Cross Humanitarian Partner Award for their work with Telecross on Friday 12 October 2012. Out of 47 local volunteers for the Telecross Programme, seven are staff of our **Community Bank®** branch who volunteer their own time to provide a valuable and potentially lifesaving service to the elderly and frail members of our community. Our **Community Bank®** branch is indeed privileged to be served by staff who are giving more meaning to the founding principle of the **Community Bank®** concept, servicing the community in a new innovative and unselfish way.

Thank you for your support and keep spreading the word.

Herman Bersee
Chairman

Manager's report

For year ending 30 June 2012

I cannot believe how quickly the past 12 months have passed! It has been a time of ups and downs, moves and merging, renovations, birthdays, hellos and goodbyes.

There has been great change within our branch, as I am sure you would have noticed when you have come in to do your banking. We began the financial year as one complete team although we were working from two separate locations. February saw us make the decision to merge the two branches into one, choosing to close down the Commercial Street location and move into the larger James Street branch. Although exciting, it was also a little sad to say goodbye to our original **Community Bank®** branch site after 10 years. The month of March saw Bupa move into their new premises thus enabling us to take over the whole branch and renovations commenced in April to accommodate extra office space for us and increase privacy for our customers. It is lovely to have all staff under one roof and I am very proud of how both teams have merged seamlessly into one. The support and friendliness they show for each other and for customers, both new and existing, is wonderful to see.

November 2011 marked our 10th birthday which was celebrated with a BBQ, Piggy mascot and birthday cake shared by customers on the day. It is hard to believe how quickly this time has gone but it is very satisfying to look back and see how we have grown and acknowledge the contributions we are able to give to our community with your support.

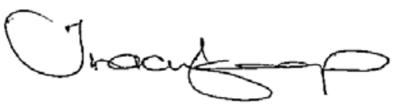
Our beautiful area has experienced uncertainty in employment, both short and long term and this has made clients more financially conscious regarding residential purchases and the paying down of debt. Competition has also stepped up within the banking industry, both in lending and deposits. Although we continue to offer superior service, this has had an impact on our business resulting in a drop in our portfolio for this financial year.

Even with this drop we have endeavoured to ensure we deliver a good profit growth, not only for the benefit of our shareholders but also the benefit of our local community so that we can continue to support a variety of causes.

This year also marked our first Community Forum night which was well attended by the people of Mount Gambier. This gave you, the community, the opportunity to tell us what our district needs and to have some input into how we can assist in making these ventures turn into reality. We have continued our support of the Stephanie Alexander Gardens, SE Arts Society, Western Border Football League and Mount Gambier & District Cricket Association as well as starting new partnerships with different sporting, education, health care and arts ventures.

On a personal note, I would like to thank my wonderful team of staff who have worked tirelessly to ensure our customers are given the best service possible at all times. A big thank you also to Neville and Wendy in Business Banking, who continue to deliver a high standard of service to our business clients. Our two sections work together to ensure customers are offered excellent service, high quality products and, most importantly, a friendly and welcoming environment where they are treated with respect and as the individuals they are.

I cannot predict what the next 12 months will bring but I do ask that you tell our story at every opportunity and encourage people to bank with us. This will enable us to grow further and will help us contribute greater amounts back into the local community. I am sure you became a shareholder because of your commitment to our local district. We need you to support our local **Community Bank®** branch with your day-to-day banking so that we can continue to support Mount Gambier and our district.



Tracy Koop
Branch Manager

Bendigo and Adelaide Bank report

For year ending 30 June 2012

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

This figure was almost unimaginable when the **Community Bank®** model was first launched in 1998, in partnership with the people from the small Victorian wheat farming towns of Rupanyup and Minyip. For these communities the **Community Bank®** model was seen as a way to restore branch banking services to the towns, after the last of the major banks closed its services. However, in the years since the **Community Bank®** model has become so much more.

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

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

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

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

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

Today that figure is an astonishing $80 million and with the continued growth and popularity of the **Community Bank®** model, returns should top $100 million by the end of 2013. These dollars add up to new community facilities, improved services, more opportunities for community engagement activities and generally speaking, a more prosperous society.

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

In Bendigo and Adelaide Bank, your **Community Bank®** company has a committed and strong partner and over the last financial year our company has also seen much success.

Bendigo and Adelaide Bank report (continued)

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

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

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

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

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

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

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

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

Russell Jenkins
Executive Customer and Community

Directors' report

For the financial year ended 30 June 2012

Your Directors submit their 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 are:

Mr. Herman Augustinus Bersee LLB
Chairman
Board Member since 28/02/2001

Ms. Pauline Grieve
Secretary
Board Member since 21/02/2007

Mrs. Karen Lee Olive
Board Member since 29/04/2009

Mr. Robert James Foggo BA, ASSOC. DIP. SW
Board Member since 23/10/2002

Mr. Edgar Malcolm Peucker
Board Member since 25/08/2004

Mr. Hendrik Jan Bruins FCA, DIP. Bus. Studies
Board Member since 22/02/2006

Mr. Francis David Kaiser
Board Member since 19/11/2008
Resigned as Director 23/11/2011

Mr Rodney George Summers
Board Member since 07/01/2009

Ms. Kathryn Elizabeth Bersee
Board Member since 17/06/2009

Ms. Carolyn Adams
Board Member since 23/03/2011

Mr. Kenneth Oswald Stafford CPA
Board Member since 26/04/2012

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

No Directors have material interests in contracts or proposed contracts with the company.

Principal activities

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

There has been no significant changes 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 2012: $226,998 (2011: $127,327).

Financial position

The net assets of the company have increased by $179,852 from 30 June 2011 to $582,524 in 2012. The increase is largely due to improved operating performance of the company.

Dividends	Year ended 30 June 2012	
	Cents per share	$'000
Final dividends recommended:	10	47,146
Dividends paid in the year:		
- Final for the year (as recommended in prior year report)	10	47,146

Significant changes in the state of affairs

During the 2011/12 financial year, the company merged the operations of the two branches into one central location at 16 James St, Mount Gambier. The branch at 58 Commercial St East Mount Gambier was closed and all staff and plant transferred to the James St site.

Events after the reporting period

Since balance date, the world financial markets have shown volatility that may have an impact on investment earnings in the 2012/13 financial year. The company continues to maintain a conservative investment strategy to manage the exposure to market volatility.

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

Future developments

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

Environmental issues

The company is not subject to any significant environmental regulation.

Proceedings on behalf of company

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

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

Remuneration report

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

Indemnifying Officers or Auditor

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

Disclosure of the nature of the liability and the amount of the premium is prohibited by the confidentiality clause of the contract of insurance. The company has not provided any insurance for an Auditor of the company.

Directors’ meetings

The number of Directors’ meetings attended by each of the Directors of the company during the year were:

Director	Board meetings#
Mr. Herman Augustinus Bersee	10 (11)
Ms. Pauline Grieve	9 (11)
Mr. Hendrik Jan Bruins	8 (11)
Mr. Robert James Foggo	6 (11)
Mr. Edgar Malcolm Peucker	3 (11)
Ms. Kathryn Elizabeth Bersee	6 (11)
Mr. Francis David Kaiser	2 (5)
Mrs. Karen Lee Olive	7 (11)
Mr. Rodney George Summers	9 (11)
Ms. Carolyn Jane Adams	7 (11)
Mr. Kenneth Oswald Stafford	4 (5)

The first number is the meetings attended while in brackets is the number of meetings eligible to attend.

Company Secretary

Ms. Pauline Grieve has been the Company Secretary of Mount Gambier & District Financial Services Ltd since 2007. Her qualifications and experience include six and a half years as legal Secretary for Herman Bersee Lawyers.

Corporate Governance

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

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

(b) Ongoing Director training; and

(c) Monthly Director meetings to discuss performance and strategic plans.

Auditor Independence Declaration

The Auditor's independence declaration for the year ended 30 June 2012 has been received and can be found on page 36.

Signed in accordance with a resolution of the Board of Directors at Mount Gambier on 25 September 2012.

Herman Bersee,
Director

Financial statements

Statement of comprehensive income for the year ended 30 June 2012

	Note	2012 $	2011 $
Revenue	2	1,847,742	1,312,742
Employee benefits expense	3	(639,950)	(521,050)
Depreciation and amortisation expense	3	(24,015)	(22,766)
Finance costs	3	(225,806)	(123,611)
Other expenses		(492,665)	(365,805)
Operating profit/(loss) before charitable donations & sponsorships		**465,306**	**279,510**
Charitable donations and sponsorship		(121,027)	(80,363)
Profit/(loss) before income tax expense		**344,279**	**199,147**
Income tax expense / (benefit)	4	97,285	71,820
Net profit/(loss) for the year		**246,994**	**127,327**
Other comprehensive income			
Net profit/(loss) on disposal of non-current assets	5	(19,996)	-
Total comprehensive income for the year		**226,998**	**127,327**
Earnings per share (cents per share)		**¢**	**¢**
- basic for profit / (loss) for the year	24	48.15	27.01
- diluted for profit / (loss) for the year	24	48.15	27.01

The accompanying notes form part of these financial statements.

Statement of financial position as at 30 June 2012

	Note	2012 $	2011 $
Assets			
Current assets			
Cash and cash equivalents	6	185,138	202,447
Receivables	7	200,763	191,236
Prepayments	8	5,306	5,044
Total current assets		**391,207**	**398,727**
Non-current assets			
Property, plant and equipment	9	180,289	118,557
Deferred tax assets	4	7,200	6,307
Intangible assets	10	2,811,860	2,772,176
Total non-current assets		**2,999,349**	**2,897,040**
Total assets		**3,390,557**	**3,295,767**
Liabilities			
Current liabilities			
Trade and other payables	11	200,222	164,196
Loans and borrowings	12	286,332	286,332
Current tax payable	4	64,989	28,474
Provisions	13	18,682	15,976
Total current liabilities		**570,225**	**494,978**
Non-current liabilities			
Trade and other payables	11	-	-
Loans and borrowings	12	2,232,418	2,392,999
Provisions	13	5,389	5,118
Total non-current liabilities		**2,237,807**	**2,398,117**
Total liabilities		**2,808,032**	**2,893,095**
Net assets/(liabilities)		**582,525**	**402,672**
Equity			
Share capital	14	471,458	471,458
Retained earnings / (accumulated losses)	15	111,066	(68,786)
Total equity		**582,524**	**402,672**

The accompanying notes form part of these financial statements.

Statement of cash flows for the year ended 30 June 2012

	Note	2012 $	2011 $
Cash flows from operating activities			
Cash receipts in the course of operations		2,295,982	1,610,302
Cash payments in the course of operations		(1,650,148)	(1,245,139)
Interest paid		(54)	(1,115)
Interest received		7,609	5,679
Income tax paid		(91,794)	-
Net cash flows from/(used in) operating activities	**16b**	**561,595**	**369,727**
Cash flows from investing activities			
Payment for intangible assets		(50,000)	(2,779,694)
Payments for property, plant and equipment		(95,426)	(92,600)
Net cash flows from/(used in) investing activities		**(145,426)**	**(2,872,294)**
Cash flows from financing activities			
Proceeds from issue of shares		-	-
Interest paid		(225,752)	(122,496)
Proceeds from borrowings		-	2,700,000
Repayment of borrowings		(160,580)	(20,669)
Dividends paid		(47,146)	(47,146)
Net cash flows from/(used in) financing activities		**(433,478)**	**2,509,689**
Net increase/(decrease) in cash held		**(17,309)**	**7,122**
Cash and cash equivalents at start of year		202,447	195,325
Cash and cash equivalents at end of year	**16a**	**185,138**	**202,447**

The accompanying notes form part of these financial statements.

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

	Note	2012 $	2011 $
Issued capital			
Balance at start of year		471,458	471,458
Issue of share capital		-	-
Share issue costs		-	-
Balance at end of year		**471,458**	**471,458**
Retained earnings/ (accumulated losses)			
Balance at start of year		(68,786)	(148,967)
Net profit/(loss) for the year		226,998	127,327
Dividends paid	23	(47,146)	(47,146)
Balance at end of year		**111,066**	**(68,786)**

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2012

Note 1. Summary of significant accounting policies

(a) Basis of preparation

Mount Gambier & Districts Financial Services Limited ('the company') is domiciled in Australia. The financial statements for the year ending 30 June 2012 are presented in Australian dollars. The company was incorporated in Australia and the principal operations involve providing **Community Bank®** services.

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

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

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, were applicable, by the measurement of fair value of selected non current assets, financial assets and financial liabilities.

The financial statements require judgements, estimates and assumptions to be made that affect the application of accounting policies. Actual results may differ from these estimates.

The financial statements were authorised for issue by the Directors on 25 September 2012.

(b) Income tax

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled.

(c) Property, plant and equipment

Property, plant and equipment are brought to account at cost less accumulated depreciation and any impairment in value.

Land and buildings are measured at fair value less accumulated depreciation.

Note 1. Summary of significant accounting policies (continued)

(c) Property, plant and equipment (continued)

Depreciation is calculated based upon the estimated useful life of the asset as follows:

Class of asset	Depreciation rate
Buildings	2.50%
Plant & equipment	10-20%

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater 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.

Revaluations

Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

Fair value is determined by reference to market based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

(d) Impairment of assets

At each reporting date, the company assesses whether there is any indication that an asset is impaired. Where an indicator of impairment exists, the company makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

(e) 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 Statement of Financial Position. 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 ATO are classified as operating cash flows.

Note 1. Summary of significant accounting policies (continued)

(f) Employee benefits

The provision for employee benefits to wages, salaries and annual leave represents the amount which the company has a present obligation to pay resulting from employees' services provided up to the reporting date. The provision has been calculated on undiscounted amounts based on wage and salary rates expected to be paid and includes related on-costs.

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

(g) Intangibles

Establishment costs have been initially recorded at cost and amortised on a straight line basis at a rate of 20% per annum. The current amortisation changes for intangible assets are included under depreciation and amortisation expense per the Statement of Comprehensive Income.

The goodwill from the purchases of the James Street branch of Bendigo and Adealide Bank, in December 2010, has been initially recorded at cost.

(h) Cash

Cash on hand and in banks are stated at nominal value.

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.

(i) Revenue

Interest and fee revenue is recognised when earned. All revenue is stated net of the amount of goods and services tax (GST).

(j) Receivables and payables

Receivables and payables are non interest bearing and generally have payment terms of between 30 and 90 days. Receivables are recognised and carried at original invoice amount less a provision for any uncollected debts. 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.

(k) New accounting standards for application in future periods

Australian Accounting Standards that have been recently issued or amended but not yet effective have not been adopted in the preparation of these financial statements. These changes have been assessed by Directors and determined they will not have a material impact on the company's financial statements.

(l) Loans and borrowings

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

(m) Provisions

Provisions are recognised when the company 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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

(n) Share capital

Issued and paid up capital is 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) Comparative figures

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

(p) Critical accounting estimates and judgements

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

Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The estimates and judgements that have a significant risk of causing material adjustments to the carrying values of assets and liabilities are as follows:

Estimation of useful lives of assets

The company determines the estimated useful lives and related depreciation and amortisation changes for its property, plant and equipment and intangible assets. The depreciation and amortisation charge will increase where useful lives are less than previously estimated lives.

Income tax

The company is subject to income tax. Significant judgement is required in determining the provision for income tax.

Impairment

The company assesses impairment at the end of each reporting period by calculating conditions and events specific to the company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value in use calculations which incorporate various key assumptions.

(q) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sell the asset (ie trade date accounting is adopted). Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to the profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method or cost.

Note 1. Summary of significant accounting policies (continued)

(q) Financial instruments (continued)

Classification and subsequent measurement (continued)

Fair value represents the amount for which an asset would be exchanged or a liability settled, between knowledgeable willing parties. Where available quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are applied to determine the fair value. Amortised costs is calculated as the amount which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

(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.

(ii) Financial liabilities

Non derivative financial liabilities are subsequently measured at amortised cost.

Impairment

At the end of each reporting period, the company assesses whether there is objective evidence that a financial asset has been impaired. A financial asset is deemed impaired if and only if, there is objective evidence of impairment as a result of one or more events (a loss event) having occurred, which has an impact on the estimated future cash flows of the financial asset. In the case of financial assets carried at amortised cost, loss events may include indications that the debtor are experiencing significant financial difficulty or changes in economic conditions.

	2012 $	**2011 $**
Note 2. Revenue from ordinary activities		
Operating activities		
- services commissions	1,814,006	1,286,145
- other revenue	-	-
Total revenue from operating activities	**1,814,006**	**1,286,145**
Non-operating activities:		
- interest received	7,609	5,679
- other revenue	26,127	20,918
Total revenue from non-operating activities	**33,736**	**26,597**
Total revenue from ordinary activities	**1,847,742**	**1,312,742**

	2012 $	2011 $

Note 3. Expenses

Employee benefits expense		
- wages and salaries	(544,661)	(431,464)
- superannuation costs	(50,953)	(36,279)
- post employment benefits (other than superannuation)	-	-
- workers' compensation costs	(3,309)	(2,099)
- other costs	(41,027)	(51,208)
	(639,950)	**(521,050)**
Depreciation of non-current assets:		
- plant and equipment	(13,699)	(12,766)
- buildings	-	-
Amortisation of non-current assets:		
- intangibles	(10,316)	(10,000)
	(24,015)	**(22,766)**
Finance costs:		
- Interest paid	(225,806)	(123,611)
Bad debts	(858)	17

Note 4. Income tax expense

The prima facie tax on profit/(loss) before income tax is reconciled to the income tax expense as follows:

Prima facie tax on profit/(loss) before income tax at 30%	97,285	59,744
Add tax effect of:		
- Non-deductible expenses	7,200	1,934
- Prior year tax losses not previously brought to account	-	-
- Future income tax benefit not brought to account	-	-
- Adjustment of prior year tax losses	-	12,076
Current income tax expense	**104,485**	**73,754**

	2012 $	2011 $
Note 4. Income tax expense (continued)		
Origination and reversal of temporary differences	(6,307)	(1,934)
Deferred income tax expense	**(6,307)**	**(1,934)**
Income tax expense/(benefit)	**98,178**	**71,820**
Tax liabilities		
Current tax payable	**64,989**	**28,474**
Deferred income tax asset		
Future income tax benefits arising from tax losses are recognised at reporting date as realisation of the benefit is regarded as probable.	**7,200**	**6,307**

Note 5. Net profit/(loss) on disposal of non-current assets

Loss on disposal of assets from branch at 58 Commercial St East upon relocation to 16 James St	(19,996)	-
	(19,996)	**-**

Note 6. Cash and cash equivalents

Cash at bank and on hand	**185,138**	**202,447**

Note 7. Receivables

GST receivable	33,434	34,444
Trade debtors	167,329	156,792
	200,763	**191,236**

Note 8. Prepayments

Prepaid expense	5,115	4,796
Prepaid borrowing costs	191	248
	5,306	**5,044**

	2012 $	2011 $

Note 9. Property, plant and equipment

	2012 $	2011 $
Plant and equipment		
At cost	241,996	242,748
Less accumulated depreciation	(61,707)	(124,191)
	180,289	**118,557**
Total written down amount	**180,289**	**118,557**
Movements in carrying amounts		
Plant and equipment		
Carrying amount at beginning of year	118,557	38,723
Additions	95,427	92,600
Disposals	(19,996)	-
Depreciation expense	(13,699)	(12,766)
Carrying amount at end of year	**180,289**	**118,557**

Note 10. Intangible assets

	2012 $	2011 $
Franchise fee		
At cost	50,000	50,000
Less accumulated amortisation	(5,833)	(45,517)
	44,167	**4,483**
The company pays a franchise fee upfront every 5 years. In the past finanical year, there was a renewal of the franchise fee for another 5 years after the previous franchise fee was fully amortised.		
Goodwill		
At cost	2,767,693	2,767,693
	2,811,860	**2,772,176**

Note 11. Payables

	2012 $	2011 $
Current		
Trade creditors	163,920	101,765
Franchise fees payable	-	-
Other creditors and accruals	36,302	62,431
	200,222	**164,196**

	2012 $	2011 $
Note 11. Payables (continued)		
Non-current		
Franchise fees payable	-	-
	-	**-**
(a) Financial liabilities at amortised cost classified as trade and other payables		
- Total current	169,474	103,985
- Total non-current	-	-
	169,474	**103,985**
Financial liabilities as trade and other payables	**169,474**	**103,985**

Note 12. Loans and borrowings

	2012 $	2011 $
Current		
Bank overdraft	-	-
Bank loan - secured	286,332	286,332
	286,332	**286,332**
Non-current		
Bank loan - secured	2,232,418	2,392,999
	2,518,750	**2,679,331**

The current loan facility with the Bendigo and Adelaide Bank was reclassified to a non-current asset as at 31 December 2011. The loan facility is for a 15 year period.

Note 13. Provisions

	2012 $	2011 $
Current		
Unpaid declared dividend	70	70
Employee benefits	18,612	15,906
	18,682	**15,976**
Non-current		
Employee benefits	5,389	5,118
	5,389	5,118
	24,071	**21,094**
Number of employees at year end	**8**	**5**

	2012 $	2011 $

Note 14. Share capital

	2012 $	2011 $
471,458 Ordinary shares fully paid of $1 each	**471,458**	**471,458**

Note 15. Retained earnings / (accumulated losses)

	2012 $	2011 $
Balance at the beginning of the financial year	(68,786)	(148,967)
Profit/(loss) after income tax	226,998	127,327
Dividends	(47,146)	(47,146)
Balance at the end of the financial year	**111,066**	**(68,786)**

Note 16. Statement of cash flows

	2012 $	2011 $
(a) Cash and cash equivalents		
Cash assets	185,138	202,447
Bank overdraft	-	-
	185,138	**202,447**
(b) Reconciliation of profit / (loss) after tax to net cash provided from/(used in) operating activities		
Profit / (loss) after income tax	226,998	127,327
Interest relating to financing activities	225,752	122,496
Non cash items		
- Depreciation	13,699	12,766
- Amortisation	10,316	10,000
- Loss on disposal of non-current assets	19,996	-
Changes in assets and liabilities		
- (Increase) decrease in receivables	(9,528)	(107,075)
- (Increase) decrease in prepayments	(262)	13,347
- (Increase) decrease in deferred taxes payable	(893)	43,347
- Increase (decrease) in trade payables and accruals	36,026	112,324
- Increase (decrease) in income taxes payable	36,515	28,474
- Increase (decrease) in provisions	2,976	6,721
Net cash flows from/(used in) operating activities	**561,595**	**369,727**

	2012 $	2011 $

Note 17. Auditors' remuneration

Amounts received or due and receivable

	2012 $	2011 $
- Audit or review of the financial report of the company	6,290	6,440
- Other services in relation to the company	-	-
	6,290	**6,440**

Note 18. Director and related party disclosures

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

Mr. Herman Augustinus Bersee
Ms. Pauline Grieve
Mr. Hendrik Jan Bruins
Mr. Robert James Foggo
Mr. Edgar Malcolm Peucker
Mr. Kenneth Oswald Stafford
Mr. Rodney Summers
Ms. Carolyn Adams
Ms. Kathryn Bersee
Mr. Francis Kaiser
Mrs Karen Olive

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.

Directors' shareholdings	**2012**	**2011**
Mr. Herman Augustinus Bersee	10,001	10,001
Ms. Pauline Grieve	-	-
Mr. Hendrik Jan Bruins	-	-
Mr. Robert James Foggo	200	200
Mr. Edgar Malcolm Peucker	500	500
Mr. Rodney Summers	-	-
Ms. Carolyn Adams	-	-
Ms. Kathryn Bersee	-	-
Mr. Francis Kaiser	3,701	3,701
Mrs Karen Olive	-	-
Mr. Kenneth Oswald Stafford	-	-

There was no movement in Directors' shareholdings during the year. Each share held has a paid up value of $1 and is fully paid.

Note 19. Events after the reporting period

Since balance date, the world financial markets have shown volatility that may have an impact on investment earnings in the 2012/13 financial year. The company continues to maintain a conservative investment strategy to manage the exposure to market volatility.

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

Note 20. Contingent liabilities and assets

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

Note 21. Operating segments

The company operates in the financial services sector where it provides banking services to its clients. The company operates in one geographic area being Mount Gambier, South Australia. The company has a franchise agreement in place with Bendigo and Adelaide Bank who account for 98% of the revenue (2011: 98%).

Note 22. Corporate Information

Mount Gambier And District Financial Services Ltd is a company limited by shares incorporated in Australia.

The registered office and principal place of business is: 16 James Street, Mount Gambier, SA 5290.

Note 23. Dividends paid or provided for on ordinary shares

	2012 $	2011 $
(a) Dividends proposed and recognised as a liability		
Franked dividends - nil cents per share (2011: nil cents)	-	-
(b) Dividends paid during the year		
(i) Current year interim		
Franked dividends - nil cents per share (2011: nil cents per share)	-	-
(ii) Previous year final		
Franked dividends - 10 cents per share (2011: nil cents per share)	47,146	-
Unfranked dividends - nil cents per share (2011: 10 cents per share)	-	47,146
(c) Dividends proposed and not recognised as a liability		
Unfranked dividends - nil cents per share (2011: nil cents per share)	-	-
Franked dividends -10 cents per share (2011: 10 cents per share)	47,146	47,146

	2012 $	2011 $

Note 23. Dividends paid or provided for on ordinary shares (continued)

(d) Franking credit balance

	2012 $	2011 $
The amount of franking credits available for the subsequent financial year are:		
- Franking account balance as at the end of the financial year	61,663	-
- Franking credits that will arise from the payment of income tax payable as at the end of the financial year	64,989	28,474
- Franking debits that will arise from the payment of dividends as at the end of the financial year	-	-
- Franking credits that will arise from the payment of dividends recognised as receivables at the reporting date	-	-
- Franking credits that the entity may be prevented from distributing in the subsequent year	-	-
	126,652	**28,474**

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%).

Note 24. Earnings per share

	2012 ¢	2011 ¢
Basic earnings per share amounts are calculated by dividing profit / (loss) after income tax by the weighted average number of ordinary shares outstanding during the year.	48.15	27.01
Diluted earnings per share amounts are calculated by dividing profit / (loss) after income tax by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of any dilutive options or preference shares).	48.15	27.01
The following reflects the income and share data used in the basic and diluted earnings per share computations:		
Profit/(loss) after income tax expense	**226,998**	**127,327**
Weighted average number of ordinary shares for basic and diluted earnings per share	**471,458**	**471,458**

	2012 $	2011 $

Note 25. Capital and leasing commitments

Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised		
in the finanical statements		
Payable - minimum lease statements		
- not later than 12 months	69,255	9,877
- between 12 months and 5 years	265,478	-

The property lease is a non-cancellable lease with a five-year term, with rent payable in advance. The current lease expires in April 2017.

Rent increase as per the lease by CPI in May 2013.

An option exists to renew the lease at the end of the current five-year term for an additional term of five years.

Note 26. Financial risk management

The company has exposure to credit risk, liquidity risk and market risk from their use of financial instruments.

This note presents information about the company's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

(a) Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. For the company it arises from receivables and cash assets.

The maximum exposure to credit risk at reporting date to recognised financial assets is the carrying amount of those assets as disclosed in the Statement of Financial Position and notes to the financial statements. The company's maximum exposure to credit risk at reporting date was:

	Carrying amount 2012 $	2011 $
Cash assets	200	200
Receivables	200,763	191,236
	200,963	**191,436**

The company's exposure to credit risk is limited to Australia by geographic area. The majority balance of receivables is due from Bendigo and Adelaide Bank.

None of the assets of the company are past due (2011: nil past due) and based on historic default rates, the company believes that no impairment allowance is necessary in respect of assets not past due.

The company limits its exposure to credit risk by only investing in liquid securities with Bendigo and Adelaide Bank.

Note 26. Financial risk management (continued)

(b) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company ensures it will have enough liquidity to meet its liabilities when due under both normal and stressed conditions. Liquidity management is carried out within the guidelines set by the Board.

Typically, the company maintains sufficient cash on hand to meet expected operational expenses, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

In addition, the company has an established overdraft facility of $50,000 with Bendigo and Adelaide Bank.

The following are the estimated contractual maturities of financial liabilities, including estimated interest payments.

	Carrying amount $	Contractual cash flows $	1 year or less $	Over 1 to 5 years $	More than 5 years $
30 June 2012					
Payables	200,222	(200,222)	(200,222)	–	–
Loans and borrowings	2,518,750	(2,518,750)	(286,332)	(1,145,328)	(1,087,090)
	2,718,972	**(2,718,972)**	**(486,554)**	**(1,145,328)**	**(1,087,090)**
30 June 2011					
Payables	164,196	(164,196)	(164,196)	–	–
Loans and borrowings	286,332	(286,332)	(250,332)	(1,001,328)	(1,427,671)
	450,528	**(450,528)**	**(414,528)**	**(1,001,328)**	**(1,427,671)**

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

<u>Interest rate risk</u>

Interest rate risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company reviews the exposure to interest rate risk as part of the regular Board meetings.

Note 26. Financial risk management (continued)

(c) Market risk (continued)

Sensitivity analysis

At the reporting date the interest rate profile of the company's interest bearing financial instruments was:

	Carrying amount	
	2012	**2011**
	$	**$**
Fixed rate instruments		
Financial assets	150,000	100,000
Financial liabilities	-	-
	150,000	**100,000**
Variable rate instruments		
Financial assets	34,938	102,247
Financial liabilities	-	-
	34,938	**102,247**

Fair value sensitivity analysis for fixed rate instruments

The company does not account for any fixed interest rate financial assets or liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have no impact on profit or retained earnings. For the analysis performed on the same basis as at 30 June 2011 there was also no impact. As at both dates this assumes all other variables remain constant.

(d) Net fair values

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

(e) 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 Statement of Financial Position.

Note 26. Financial risk management (continued)

(e) Capital management (continued)

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.

Directors' declaration

In accordance with a resolution of the Directors of Mount Gambier and District Financial Services Limited, I 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 their performance for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and Corporations Regulations 2001;

(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; and

(c) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2012.

Herman Bersee,
Director

Signed at Mount Gambier on 25 September 2012.

Detailed financials

Detailed statement of comprehensive income for the year ended 30 June 2012

	2012 $	2011 $
Income		
Commission received	1,814,006	1,286,145
Other income		
Interest received	7,609	5,679
Insurance recovery	-	-
Rent received	26,127	20,918
Sundry	-	-
	1,847,742	**1,312,742**
Expenditure		
Accountancy fees	13,600	15,950
Annual leave accrual	33,079	24,797
Asic compliance costs	1,356	1,029
Advertising & promotion	29,361	24,823
Agent commission	4,061	1,570
Amortisation	10,316	10,000
ATM fees	26,783	17,136
Auditors remuneration	6,290	6,440
Bank charges	600	540
Bad debts written off	858	(17)
Board expenses	7,558	6,874
Borrowing costs	56	33
Cash delivery	2,515	2,357
Cash management	895	534
Cleaning & gardening	13,521	9,893
Community grants	121,027	80,363
Computer expenses	72,008	54,093
Depreciation	13,699	12,766
Donations	-	-
Employee’s amenities	670	1,070

Detailed financials (continued)

Detailed statement of comprehensive income for the year ended 30 June 2012 (continued)

	2012 $	2011 $
Expenditure (continued)		
Fixed assets <$300	1,249	86
Freight & cartage	48,990	35,646
Fringe benefit tax	-	575
Hire of plant & equipment	273	-
Insurance	15,971	13,533
Interest paid	225,806	123,611
Lease / rent office equipment	2,412	1,206
Legal costs	604	73
Light & power	18,438	14,534
Long service leave provision	6,694	19,079
Marketing	5,070	1,882
Other employer expenses	9,101	7,332
Outsourcing costs	-	-
Payroll services	615	550
Payroll tax	24,576	16,303
Postage	3,319	9,373
Printing & stationary	19,470	17,293
Procedural errors	259	182
Rates & taxes	7,674	5,543
Rent	86,698	64,628
Repairs & maintenance	20,965	4,401
Salaries & wages	544,661	431,464
Search fees	3,199	2,676
Security costs	6,762	1,230
Share registry	1,240	2,353
Staff recruitment & training	6,993	7,882
Staff uniforms	3,060	1,682
Subscriptions	180	118
Sundry expenses	2,042	1,805

Detailed financials (continued)

Detailed statement of comprehensive income
for the year ended 30 June 2012 (continued)

	2012 $	2011 $
Expenditure (continued)		
Superannuation contributions	50,953	36,279
Telephone	13,470	10,625
Travelling expenses	11,157	9,302
Workcover	3,309	2,098
	1,503,463	**1,113,595**
Net profit / (loss)	**344,279**	**199,147**

Auditor's independence declaration

MURRAY NANKIVELL

ACCOUNTANTS & BUSINESS CONSULTANTS
"SERVICE IS OUR STRENGTH"

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AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

TO THE DIRECTORS OF MOUNT GAMBIER & DISTRICT FINANCIAL SERVICES LTD

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2012 there have been:

(i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) No contraventions of any applicable code of professional conduct in relation to the audit.

Mark Stephen Edwards
Chartered Accountant
172 Smith Street
Naracoorte, SA, 5271

Registered Auditor: Mark Edwards

Naracoorte

26th September 2012

Liability limited by a scheme approved
under Professional Standards Legislation

Independent audit report

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INDEPENDENT AUDIT REPORT
TO THE MEMBER OF
MOUNT GAMBIER & DISTRICT FINANCIAL SERVICES LTD

Report on the Financial Report

We have audited the accompanying financial report of Mount Gambier & District Financial Services Ltd (the company) which comprises the balance sheet as at 30 June 2012 and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the director's declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair 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 accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: 'Presentation of Financial Statements', that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Auditor's Responsibility

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

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

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

MURRAY NANKIVELL

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INDEPENDENT AUDIT REPORT
TO THE MEMBER OF
MOUNT GAMBIER & DISTRICT FINANCIAL SERVICES LTD

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Mount Gambier & District Financial Services Ltd on 26 September 2011, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion

In our opinion:

a. The financial report of Mount Gambier & District Financial Services Ltd is in accordance with the Corporations Act 2001 including:

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

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

b. The financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Mark Stephen Edwards
Chartered Accountant
172 Smith Street
Naracoorte, SA, 5271

Registered Auditor: Mark Edwards

Naracoorte

26th September 2012

Liability limited by a scheme approved
under Professional Standards Legislation

Mount Gambier & District **Community Bank®** Branch
16 James Street, Mount Gambier SA 5290
Phone: (08) 8726 3200

Franchisee:
Mount Gambier & District Financial Services Limited
16 James Street, Mount Gambier SA 5290
Phone: (08) 8726 3200
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