Tongala & District **Community Bank®** Branch

annual report 2012

Tongala & District
Financial Services Limited

ABN 22 094 331 665

Contents

Chairman's report

For year ending 30 June 2012

It gives me great pleasure to provide my report this year and I would like to begin by thanking Ben and the staff who all do such a great job promoting the **Community Bank®** branch, its services and the **Community Bank®** concept.

The business has grown significantly and the agencies in Kyabram and Mathoura provide opportunity for continued growth alongside the great support we get from the community at the Tongala & District **Community Bank®** Branch.

Thanks also to my fellow Board members for their dedication and commitment. As the business grows we have the opportunity to make strategic contributions to the local area and it is important these investments support not only today's needs but also assist in strengthening our communities.

$80 million returned to communities

Thanks to the support of **Community Bank®** branch customers and shareholders the Australia-wide network has now returned more than $80 million to support and strengthen local communities.

Our **Community Bank®** branch has played a key role in this milestone, returning more than $388,000 to our local community.

These community grants and sponsorships have made a significant difference to a number of local organisations including the TCAC, Power FM, Aged care and a variety of sporting clubs. We look forward to continuing to support these groups and others as more people bank with us and we become more successful.

We continue to work hard and grow the business so we can reward the support of our local shareholders by paying them a dividend.

Interest rate movements

Our **Community Bank®** company and our partner Bendigo and Adelaide Bank, encourages transparency when setting interest rates and fees.

We believe it is our shared responsibility to ensure customers understand the environment banks operate in, so they can make educated judgement calls on who they choose to do their banking business with.

Our branch is committed to appropriately adjusting its interest rates (be it up or down) to ensure a fair balance is achieved between all of our stakeholders - borrowers, depositors, shareholders staff and the communities we partner with.

Cost of funding

There is no doubt that all banks face higher funding costs, following changes in the economic environment triggered by the Global Financial Crisis.

We support our partner Bendigo and Adelaide Bank in its decision making and believe it is committed to striking a fair balance between all key stakeholders - borrowers, depositors, shareholders staff and the wider communities – when it sets interest rates.

Ratings upgrade

In December 2011, Bendigo and Adelaide Bank joined Australia's A-rated banks following an upgrade announced by Standard & Poor's (S&P).

S&P's decision to raise the Bank's long-term rating from BBB+ to A– means the Bank, including it's **Community Bank®** partners, is now rated 'A' by all three of the world's leading credit rating agencies.

Restoring the balance update

Funding for all banks is expensive and likely to remain so, as a result 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 **Community Bank®** company's margin share with our franchise partner Bendigo and Adelaide Bank. We still share margin (in part based on fixed trails) but this is continuing to reflect a skew in margin share between the Bendigo and Adelaide Bank and its **Community Bank®** partners.

We've been working together 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 we remain committed to addressing this with our partner.

Government guarantee

In September 2011, the Federal Government announced changes to its Financial Claims Scheme (FCS), also known as the "government guarantee", lowering it from $1 million to $250,000 effective 1 February 2012.

All **Community Bank®** branches operate under Bendigo and Adelaide Bank's banking licence, and as such all deposits held with a vbranch are guaranteed by the Federal Government and supported by capital supplied by their franchise partner, Bendigo and Adelaide Bank.

Lowering the cap is an indication of the strength of Australian banks, including Bendigo and Adelaide Bank and the combination of healthy, profitable banks and strong prudential regulation is the best guarantee our customers have that their money is safe in our **Community Bank®** branch.

Neil W Pankhurst

Neil Pankhurst
Chairman

Manager’s report

For year ending 30 June 2012

It is with pleasure that I submit this report as the Manager of Tongala & District **Community Bank®** Branch.

Another financial year has passed and I am thrilled to say that it has been a pleasing year for the branch in terms of growth of our business. As at 30 June 2012 our total business (loans & deposits) sits at $64 million which equates to total growth for the year of $10.2 million. I am proud of this growth rate and it is testament to the hard work of our staff and the support of our community.

We continue to invest in the local community with many organisations receiving funding in the last 12 months. The key message that we want to drive is that the more people banking with us results in us being able to deliver more profits within our local community. So in essence profits stay local and our community gets a say in where these profits are best used.

Tongala & District **Community Bank®** Branch continues its alignment with both the Kyabram and Mathoura Agents. The relationship we have with our agents is very important to us and it has allowed us to attract business from a wider area. The ATM is now up and running in Kyabram and we are very pleased with the amount of transactions the ATM is attracting on a monthly basis.

I would also like to take this opportunity to thank the staff and Board for their support and efforts throughout the last 12 months. I would also like to thank all shareholders as without you we would not have this wonderful banking facility that we have. We look forward to another year of growth as we strive to achieve higher profits which in turn will allow greater capital to flow in the community.

Ben Langley
Branch Manager

Directors' report

For the financial year ended 30 June 2012

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 are:

Neil Pankhurst
Chairman
Farmer
Board member since March 2008

Ken Chapman
Director
Farmer
Board member since August 2000

Jean Courtney
Director
Director of Nursing
Board member since April 2006

David Blanchard
Director / Company Secretary
Public Accountant
Resigned 25 January 2012

Ian Taylor
Director
Retired
Board member since January 2009

Mark Dunwoodie
Director
Business Owner
Appointed 9 December 2011

Richard Herbert
Director
Baker
Board member since August 2000

Ian Johnstone
Director
Farmer
Board member since August 2000

Jill Regan
Director
Farmer
Board member since August 2000

David Newman
Director
Newsagent
Board member since March 2011

Lyn Cosham
Director
Retired
Board member since November 2010

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

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

The profit of the company for the financial year after provision for income tax was $14,320 (2011: $7,442).

Financial position

The net assets of the company have decreased by $2,748 from June 30, 2011 to $145,456 in 2012.

	Year ended 30 June 2012	
Dividends	**Cents per share**	**$**
Dividends declared and paid in the year:		
- Fully franked dividend	5	17,068

Significant changes in the state of affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the company that occurred during the financial year under review not otherwise disclosed in this report.

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 2012/2013 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.

Likely developments

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

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

Other than detailed below, 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.

Remuneration report (continued)

Director Ian Johnstone was paid $10,600 (2011: $9,600) in rent payments for lease of property for the year ended 30 June 2012. Company Secretary David Newman was paid $655 (2011: Nil) for professional accounting and secretarial duties for the year ended 30 June 2012. These payments were made under normal commercial terms and conditions.

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, 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 during the year were:

Director	Board meetings*
Neil Pankhurst	10 (11)
Richard Herbert	6 (11)
Ken Chapman	10 (11)
Ian Johnstone	11 (11)
Jean Courtney	8 (11)
Jill Regan	7 (11)
David Blanchard (resigned 25 January 2012)	1 (5)
David Newman	9 (11)
Ian Taylor	7 (11)
Lyn Cosham	11 (11)
Mark Dunwoodie (appointed 9 December 2011)	2 (6)

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

Company Secretary

David Newman was appointed company Secretary when David Blanchard resigned on 25 January 2012. David was an accountant up until June 2010, he now owns the Tongala newsagency.

Corporate governance

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

(a) The establishment of an audit committee. Members of the audit committee are Ian Johnstone, Ken Chapman, Jill Regan, Jean Courtney and David Newman;

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

(c) Ongoing Director training; and

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

Non audit services

The Directors in accordance with advice from the audit committee, are satisfied that the provision of non audit services during the year is compatible with the general standard of independence for Auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed in Note 5 did not compromise the external Auditor's independence for the following reasons:

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

Auditor independence declaration

The Auditor's independence declaration for the year ended 30 June 2012 has been received and can be found on page 9 of this financial report.

Signed in accordance with a resolution of the Board of Directors at Tongala, Victoria on 11 September 2012.

David Newman
Director

Auditor's independence declaration

Richmond
Sinnott &
Delahunty
Chartered Accountants

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The Directors
Tongala & District Financial Services Limited
35 Mangan Street
Tongala VIC 3621

To the Directors of Tongala & District Financial Services Limited

Auditor's Independence Declaration under section 307C of the Corporations Act 2001

I declare that to the best of my knowledge and belief, during the year ended 30 June 2012 there has 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.

RICHMOND SINNOTT & DELAHUNTY
Chartered Accountants

Philip Delahunty
Partner
Dated at Bendigo, 11 September 2012

Financial statements

Statement of comprehensive income
for the year ended 30 June 2012

	Note	2012 $	2011 $
Revenue	2	641,591	565,312
Employee benefits expense	3	(300,726)	(280,545)
Depreciation and amortisation expense	3	(15,198)	(28,066)
Finance costs	3	(4,535)	(5,446)
Other expenses		(276,400)	(217,433)
Operating profit before charitable donations & sponsorships		**44,732**	**33,822**
Charitable donations and sponsorship		(29,789)	(25,964)
Profit before income tax expense		**14,943**	**7,858**
Income tax expense	4	623	416
Net profit for the year		**14,320**	**7,442**
Other comprehensive income		-	-
Total comprehensive income for the year		**14,320**	**7,442**
Earnings per share (cents per share)			
- basic for profit for the year	23	4.20	2.18
- diluted for profit for the year	23	4.20	2.18

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	152,593	164,222
Receivables	7	24,933	25,704
Total current assets		**177,526**	**189,926**
Non-current assets			
Property, plant and equipment	8	8,121	13,319
Deferred tax assets	4	13,238	13,861
Intangible assets	9	35,000	45,000
Total non-current assets		**56,359**	**72,180**
Total assets		**233,885**	**262,106**
Liabilities			
Current liabilities			
Payables	10	14,504	20,840
Loans and borrowings	11	10,447	15,256
Provisions	12	24,990	33,460
Total current liabilities		**49,941**	**69,556**
Non-current liabilities			
Loans and borrowings	11	38,488	44,346
Total non-current liabilities		**38,488**	**44,346**
Total liabilities		**88,429**	**113,902**
Net assets		**145,456**	**148,204**
Equity			
Issued capital	13	341,350	341,350
Accumulated losses	14	(195,894)	(193,146)
Total equity		**145,456**	**148,204**

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		711,396	618,343
Cash payments in the course of operations		(698,290)	(570,173)
Interest received		7,535	5,575
Interest expense		(4,535)	(5,446)
Net cash flows from operating activities	**15b**	**16,106**	**48,299**
Cash flows from investing activities			
Purchase of intangible assets		-	(50,000)
Net cash flows used in investing activities		**-**	**(50,000)**
Cash flows from financing activities			
Repayments of borrowings		(10,667)	(12,859)
Dividends paid		(17,068)	-
Net cash flows used in financing activities		**(27,735)**	**(12,859)**
Net decrease in cash held		**(11,629)**	**(14,560)**
Cash and cash equivalents at start of year		164,222	178,782
Cash and cash equivalents at end of year	**15a**	**152,593**	**164,222**

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		341,350	341,350
Issue of share capital		-	-
Share issue costs		-	-
Balance at end of year		**341,350**	**341,350**
Accumulated losses			
Balance at start of year		(193,146)	(200,588)
Profit after income tax expense		14,320	7,442
Dividends paid	22	(17,068)	-
Balance at end of year		**(195,894)**	**(193,146)**

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

Tongala & District 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 companwas 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 11 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 on a straight line basis over the estimated useful life of the asset as follows:

Class of asset	Depreciation rate
Plant & equipment	10-20%
Motor vehicles	25%

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.

(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) 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.

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. Where available quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Note 1. Summary of significant accounting policies (continued)

(q) Financial instruments (continued)

Classification and subsequent measurement (continued)

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 debtors are experiencing significant financial difficulty or changes in economic conditions.

Note 2. Revenue from continuing operations

	2012 $	**2011 $**
Revenue from continuing activities		
- services commissions	634,056	559,737
- other revenue	-	-
	634,056	**559,737**
Other revenue		
- interest received	7,535	5,575
- other revenue	-	-
	7,535	**5,575**
	641,591	**565,312**

Notes to the financial statements (continued)

	2012 $	2011 $

Note 3. Expenses

Employee benefits expense		
- wages and salaries	284,193	265,029
- superannuation costs	15,487	15,089
- workers' compensation costs	768	427
- fringe benefit costs	278	-
	300,726	**280,545**
Depreciation of non-current assets:		
- plant and equipment	5,198	15,096
- motor vehicle	-	3,574
Amortisation of non-current assets:		
- intangible assets	10,000	9,396
	15,198	**28,066**
Finance costs:		
- interest paid	4,535	5,446
Bad debts	680	327

Note 4. Income tax expense

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

Prima facie tax on profit before income tax at 30%	4,483	2,357
Add tax effect of:		
- Non-deductible/ (deductible) expenses	(2,541)	4,139
- Prior year under / (over) provision	(1,319)	(6,080)
Current income tax expense	**623**	**416**
Income tax expense	**623**	**416**
Deferred tax assets		
Future income tax benefits arising from tax losses are recognised at reporting date as realisation of the benefit is regarded as probable.	**13,238**	**13,861**

	2012 $	2011 $

Note 5. Auditors' remuneration

Remuneration of the Auditor for:		
- Audit or review of the financial report	3,900	3,900
- Preparation and lodgement of taxation return	500	500
- Share registry services	3,334	1,600
	7,734	**6,000**

Note 6. Cash and cash equivalents

Cash assets	**152,593**	**164,222**

Note 7. Receivables

Trade debtors	**24,933**	**25,704**

Note 8. Property, plant and equipment

Furniture & fittings		
At cost	65,766	65,766
Less accumulated depreciation	(65,766)	(65,766)
	-	-
Plant & equipment		
At cost	42,200	42,200
Less accumulated depreciation	(34,079)	(28,881)
	8,121	**13,319**
Leased motor vehicle		
At cost	28,592	28,592
Less accumulated depreciation	(28,592)	(28,592)
	-	-
Total written down amount	**8,121**	**13,319**

	2012 $	2011 $

Note 8. Property, plant and equipment (continued)

Movements in carrying amounts

	2012 $	2011 $
Furniture & fittings		
Carrying amount at beginning of year	-	6,655
Additions	-	-
Disposals	-	-
Depreciation expense	-	(6,655)
Carrying amount at end of year	**-**	**-**
Plant & equipment		
Carrying amount at beginning of year	13,319	21,760
Additions	-	-
Disposals	-	-
Depreciation expense	(5,198)	(8,441)
Carrying amount at end of year	**8,121**	**13,319**
Leased motor vehicle		
Carrying amount at beginning of year	-	3,574
Additions	-	-
Disposals	-	-
Depreciation expense	-	(3,574)
Carrying amount at end of year	**-**	**-**

Note 9. Intangible assets

	2012 $	2011 $
Establishment costs		
At cost	50,000	50,000
Less accumulated amortisation	(15,000)	(5,000)
	35,000	**45,000**

Note 10. Payables

	2012 $	2011 $
Trade creditors	**14,504**	**20,840**

Notes to the financial statements (continued)

	2012 $	2011 $

Note 11. Loans and borrowings

	2012 $	2011 $
Current		
Bank loan	8,724	8,724
Lease liability	1,723	6,532
	10,447	**15,256**
Non-current		
Bank loan	38,488	43,339
Lease liability	-	1,007
Total non-current	**38,488**	**44,346**

Note 12. Provisions

	2012 $	2011 $
Employee benefits	**24,990**	**33,460**
Movement in employee benefits		
Opening balance	33,460	24,062
Additional provisions recognised	13,036	13,109
Amounts utilised during the year	(21,506)	(3,711)
Closing balance	**24,990**	**33,460**

Note 13. Share capital

	2012 $	2011 $
341,350 Ordinary Shares fully paid of $1 each	**341,350**	**341,350**

The company has authorised share capital amounting to 341,350 ordinary shares.

Note 14. Accumulated losses

	2012 $	2011 $
Balance at the beginning of the financial year	(193,146)	(200,588)
Profit after income tax	14,320	7,442
Dividends	(17,068)	-
Balance at the end of the financial year	**(195,894)**	**(193,146)**

	2012 $	2011 $

Note 15. Statement of cash flows

(a) Cash and cash equivalents

Cash assets	**152,593**	**164,222**

(b) Reconciliation of profit after tax to net cash provided from / (used in) operating activities

Profit after income tax	14,320	7,442
Non cash items		
- Depreciation	5,198	18,670
- Amortisation	10,000	9,396
Changes in assets and liabilities		
- (Increase) decrease in receivables	771	2,760
- Increase (decrease) in payables	(6,336)	217
- Increase (decrease) in provisions	(8,470)	9,398
- (Increase) decrease in deferred income tax asset	623	416
Net cash flows from / (used in) operating activities	**16,106**	**48,299**

Note 16. Director and related party disclosures

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

Neil Pankhurst
Richard Herbert
Ken Chapman
Ian Johnstone
Jean Courtney
Jill Regan
David Blanchard (resigned 25 January 2012)
David Newman
Ian Taylor
Lyn Cosham
Mark Dunwoodie (appointed 9 December 2011)

Director Ian Johnstone was paid $10,600 (2011: $9,600) in rent payments for lease of property for the year ended 30 June 2012. Company Secretary David Newman was paid $655 (2011: Nil) for professional accounting and secretarial duties for the year ended 30 June 2012. These payments were made under normal commercial terms and conditions.

No Director's fees have been paid as the positions are held on a voluntary basis.

Note 16. Director and related party disclosures (continued)

Directors' shareholdings	2012	2011
Neil Pankhurst	1,500	1,500
Richard Herbert	2,000	2,000
Ken Chapman	5,000	5,000
Ian Johnstone	528	528
Jean Courtney	1,500	1,500
Jill Regan	8,000	8,000
David Blanchard (resigned 25 January 2012)	2,000	2,000
David Newman	1,000	1,000
Ian Taylor	-	-
Lyn Cosham	-	-
Mark Dunwoodie (appointed 9 December 2011)	-	-

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 17. 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 2012/2013 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 18. Contingent liabilities and assets

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

Note 19. 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 Tongala, Victoria. The company has a franchise agreement in place with Bendigo and Adelaide Bank who account for 100% of the revenue (2011: 100%).

Note 20. Corporate information

Tongala & District Financial Services Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the National Stock Exchange.

The registered office is:
88 Mangan Street,
Tongala VIC 3621

The principal place of business is:
88 Mangan Street,
Tongala VIC 3621

Note 21. Lease commitments

	2012 $	2011 $
Finance leases are capitalised in the accounts in accordance with the accounting policies outlined in Note 1.		
Payable:		
No later than 1 year	1,962	6,532
Later than 1 year & not later than 5 years	-	1,962
Later than 5 years	-	-
Minimum lease payments	**1,962**	**8,494**
Less future finance charges	(239)	(955)
	1,723	**7,539**

Note 22. Dividends paid or provided for on ordinary shares

	2012 $	2011 $
(a) Dividends paid during the year		
(i) Previous year final		
Franked dividends - 5 cents per share (2010: Nil cents per share)	17,068	-
(b) Franking credit balance		
The amount of franking credits available for the subsequent financial year are:		
- Franking account balance as at the end of the financial year	1,943	9,258
- Franking debits that will arise from the payment of income tax payable as at the end of the financial year	-	-
	1,943	**9,258**

	2012 $	2011 $

Note 23. Earnings per share

Basic earnings per share amounts are calculated by dividing profit after income tax by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing profit 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).

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2012 $	2011 $
Profit after income tax expense	**14,320**	**7,442**
Weighted average number of ordinary shares for basic and diluted earnings per share	**341,350**	**341,350**

Note 24. Financial risk management

The company's financial instruments consist mainly of deposits with banks, account receivables and payables, bank overdraft and loans.

The totals for each category of financial instruments measured in accordance with AASB 139 are as follows:

		2012 $	2011 $
Financial assets			
Cash & cash equivalents	6	152,593	164,222
Receivables	7	24,933	25,704
Total financial assets		**177,526**	**189,926**
Financial liabilities			
Payables	10	14,504	20,840
Loans & borrowings	11	48,935	59,602
Total financial liabilities		**63,439**	**80,442**

Financial risk management policies

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established an Audit Committee which reports regularly to the Board. The Audit Committee is assisted in the area of risk management by an internal audit function.

Specific financial risk exposure and management

The company has exposure to credit risk, liquidity risk and market risk from their use of financial instruments. There have been no substantive changes in the types of risks the company is exposed to, how the risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous period.

Note 24. Financial risk management (continued)

(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 and cash equivalents	152,593	164,222
Receivables	24,933	25,704
	177,526	**189,926**

The company's exposure to credit risk is limited to Australia by geographic area. The majority of receivables are 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.

(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.

Financial liability and financial asset maturity analysis

	Total $	Within 1 year $	1 to 5 years $	Over 5 years $
30 June 2012				
Financial liabilities due for payment				
Payables	(14,504)	(14,504)	–	–
Loans and borrowings	(48,935)	(10,447)	(34,896)	(3,592)
Total expected outflows	**(63,439)**	**(24,951)**	**(34,896)**	**(3,592)**

Note 24. Financial risk management (continued)

(b) Liquidity risk (continued)

Financial liability and financial asset maturity analysis (continued)

	Total $	Within 1 year $	1 to 5 years $	Over 5 years $
Financial assets - cashflow realisable				
Cash & cash equivalents	152,593	152,593	–	–
Receivables	24,933	24,933	–	–
Total anticipated inflows	**177,526**	**177,526**	**–**	**–**
Net (outflow)/inflow on financial instruments	**114,087**	**152,575**	**(34,896)**	**(3,592)**

	Total $	Within 1 year $	1 to 5 years $	Over 5 years $
30 June 2011				
Financial liabilities due for payment				
Payables	(20,840)	(20,840)	–	–
Loans and borrowings	(59,602)	(15,256)	(35,903)	(8,443)
Total expected outflows	**(80,442)**	**(36,096)**	**(35,903)**	**(8,443)**
Financial assets - cashflow realisable				
Cash & cash equivalents	164,222	164,222	–	–
Receivables	25,704	25,704	–	–
Total anticipated inflows	**189,926**	**189,926**	**–**	**–**
Net (outflow)/inflow on financial instruments	**109,484**	**153,830**	**(35,903)**	**(8,443)**

Financial assets pledged as collateral

There are no material amounts of collateral held as security as at June 30 2012 and June 30 2011.

(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.

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 24. 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	60,000	60,000
Financial liabilities	(48,935)	(59,602)
	11,065	**398**
Floating rate instruments		
Financial assets	92,593	104,222
Financial liabilities	-	-
	92,593	**104,222**

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.

The company has no exposure to fluctuations in foreign currency.

(d) Price risk

The company is not exposed to any material price risk.

Fair values

The fair values of financial assets and liabilities approximate the carrying values as disclosed in the Statement of Financial Position. Fair value is the amount at which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction. The company does not have any unrecognised financial instruments at year end.

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 24. Financial risk management (continued)

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 Tongala & District Financial Services Limited, the Directors of the company declare that:

1 the financial statements and notes of the company as set out on pages 10 to 30 are in accordance with the Corporations Act 2001 and:

   (i) comply with Australian Accounting Standards, which as stated in accounting policy Note 1(a) to the financial statements constitutes compliance with International Financial Reporting Standards (IFRS); and

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

2 in the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

David Newman
Director

Signed at Tongala, Victoria on 11 September 2012.

Richmond Sinnott & Delahunty
Chartered Accountants

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF TONGALA & DISTRICT FINANCIAL SERVICES LIMITED

Report on the Financial Report

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

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards (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. Those 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 judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation 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 company'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.

Richmond Sinnott & Delahunty
ABN 60 616 244 309
Liability limited by a scheme approved under Professional Standards Legislation

Partners:
Warren Sinnott
Cara Hall
Brett Andrews
Philip Delahunty
Kathie Teasdale
David Richmond

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion

In our opinion:

(a) the financial report of Tongala & District Financial Services Limited is in accordance with the Corporations Act 2001, including:

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

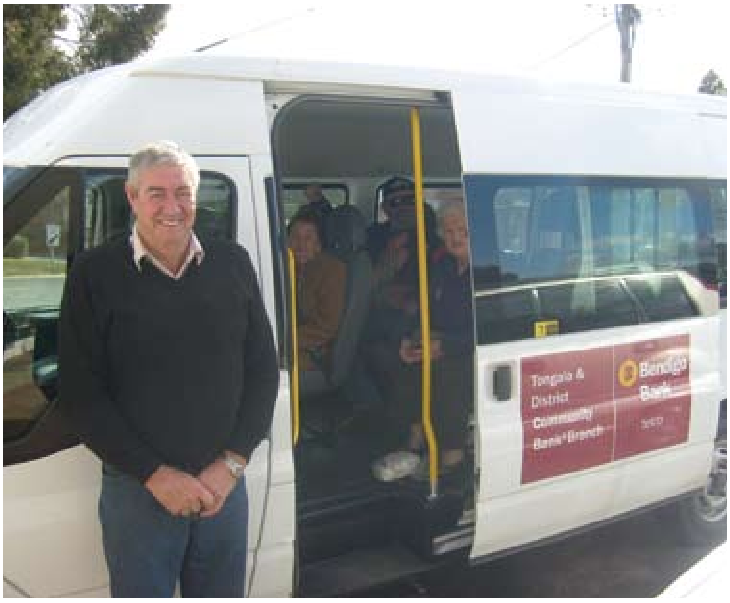
(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

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

RICHMOND SINNOTT & DELAHUNTY
Chartered Accountants

Philip Delahunty
Partner

Dated at Bendigo, 11 September 2012



Franchisee: Tongala & District Financial Services Limited
35 Mangan Street, Tongala VIC 3621
Phone: (03) 5859 1401   Fax: (03) 5859 1407
ABN: 22 094 331 665
www.bendigobank.com.au/tongala

Share Registry: Richmond Sinnott & Delahunty
10-16 Forest Street, Bendigo VIC 3550
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PO Box 30, Bendigo VIC 3552
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Email: shareregistry@rsdadvisors.com.au
www.rsdadvisors.com.au

Tongala & District **Community Bank®** Branch
35 Mangan Street, Tongala VIC 3621
Phone: (03) 5859 1401   Fax: (03) 5859 1407

Bendigo Bank

(BMPAR12000) (08/12)