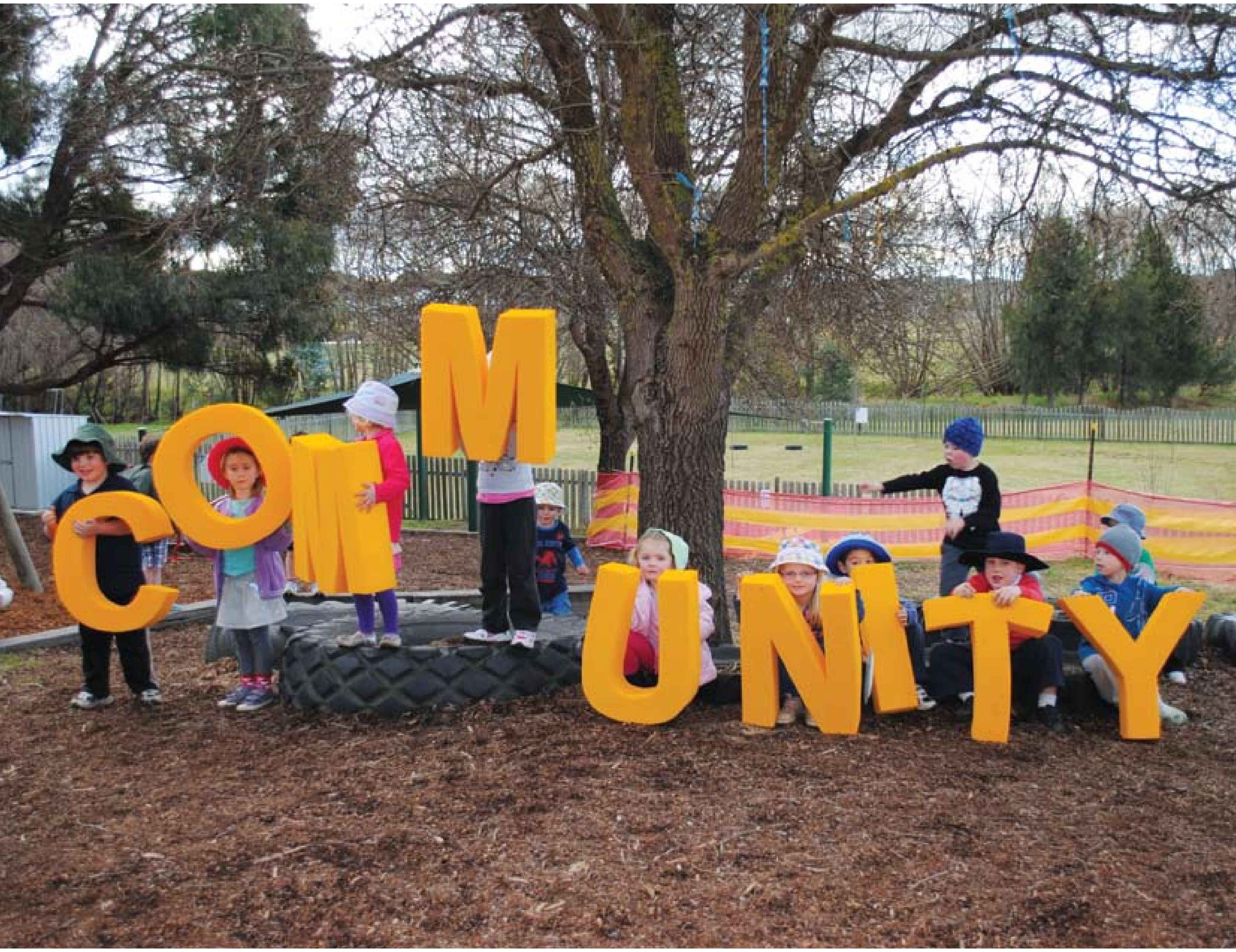
Braidwood **Community Bank®** Branch
Bungendore **Community Bank®** Branch




# annual report 2012

Palerang Financial Services Limited

ABN 83 097 801 100

# Contents

# Chairman's report

## For year ending 30 June 2012

The 2011/12 financial year has seen another very satisfactory result for Palerang Financial Services Ltd (PFSL). The business has performed well, delivering solid profit and business growth in a tough economy.

A profit before income tax of $285,000 has been achieved. This has occurred after distributing $201,711 to community organisations (an increase from $130,134 the previous year) and also putting aside a further $146,289 for future community projects.

The company will declare a franked dividend of 6.5 cents as at 1 November 2012, to be paid to shareholders in December. This is an improved result which is better than forecast last year.

The company purchased the Bungendore unit from which it operates and the purchase was made with cash reserves. The company now owns the two sites it operates from and continues to not have any debt.

The company also renewed its franchise agreement for Braidwood for another five years. This is the second renewal of this franchise agreement and marks 10 years of operations in Braidwood, a significant milestone. I thank the Braidwood community for their continued support.

The outcomes from our sponsorships are a very important element of your **Community Bank®** branch. We have been very pleased to assist right across the community whether it be trophies for a sports team or GPS equipment for our Rural Fire Service. This year the company approved a sponsorship of the Snowy Hydro Southcare Rescue helicopter. Whilst it is a modest sponsorship, it is important to support those who provide emergency retrieval and transportation services to our communities.

Operationally, we provide banking services to our community through our staff in the branches at Braidwood and Bungendore. We consider our staff to be outstanding ambassadors and contributors to the community and I congratulate all of them on their significant contribution to the success of the company.

Governance of the company is vested in a Board of volunteer Directors who donate their time and expertise. The Sponsorship Subcommittees work tirelessly with our community to ensure that bank sponsorships get to the right community initiative. I commend and thank all of our Directors for their great contribution.

I would like to particularly congratulate our Senior Manager Craig Pettit and his management team for their efforts in steering the operations of the company through all the complexities of the economy.

The year ahead will continue to see challenges, but I continue to be optimistic about our future.

- Business growth is expected to remain moderate during 2012/13.
- The company will continue to work hard to improve market share within the region.
- Provisionally, $312,000 will be made available for sponsorship and grants during the 2012/13 financial year.
- A forecast of maintaining at least a 6.5 cent franked dividend, if business conditions do not deteriorate, in 2012.
- PFSL's sponsorship committee is working closely with several community groups in both Bungendore and Braidwood to achieve beneficial outcomes during 2011/12.

I and the Board remain committed to the **Community Bank®** concept and its ability to continue to deliver positive and rewarding outcomes for customers, shareholders and the community.

**Shane Holness**
**Chairman**

# General Manager's report

## For year ending 30 June 2012

This year marked 10 years since the company brought the **Community Bank®** concept to the local area with the opening of the first branch in Braidwood. It has been a successful journey over the past decade with us being able to meet our initial objectives of;

- Providing banking facilities in towns were there is otherwise no permanent banking facilities and the flow on effect this has to a local business community.
- Return profits to the local community with $349,000 allocated in the past year.
- Provide local employment with 13 local staff currently on the payroll.
- Provide our shareholders with a reasonable rate of return on their investment with this year's dividend being 6.5% fully franked.

The past year was a challenging one with business under management growing by only $6 million. This represents only 3.24% growth in overall business for the year. Loans growth was strong at 9.63% ($7.9 million) however a reduction in deposit funds held and superannuation under management saw the low overall growth.

The profitability before tax, charitable donations and sponsorship has increased from $599,515 to $627,287 which was a good result in view of the limited growth and the reduced margins.

Income for the year of $1.925 million was a $65,170 increase over the previous year while the increase in expenses was limited to $37,398.

Looking forward, we know there will be a further reduction in fixed margins on term deposits and fixed rate loans. Over the coming year we will have to obtain similar growth to this year to compensate for this. We have started this year with good growth however this remains a challenge in what is generally a slower market, especially in lending. I am however confident that we will be able to hold our profit levels and our dividend payment.

The purchase of the Bungendore premises was a positive move as we will no longer be required to pay rent and therefore reduce our costs.

I would like to thank the staff for their hard work during the year. I would also like to welcome new staff members Erin Hall, Cody Moran and Jayde Tranter to the company. I would also like to thank the Board for their ongoing support and hard work.

As always, I would like to finish by inviting anyone who is not yet a customer of our **Community Bank®** branch to contact us for all your banking needs.

**Craig Pettit**
**General Manager**

# Sponsorships

## Combined major sponsorship, donations, & grants 2011/12

| Braidwood | | |
|---|---|---|
| **Organization** | **Purpose** | **Amount** |
| Preschool Assoc. | Art Enrichment Program | $2,373 |
| Junior Rugby Club | Sporting equipment | $1,000 |
| Gundillion Rec. Res. Trust | Centenary Event | $2,500 |
| Junior Soccer Club | Sporting equipment | $2,740 |
| Outward Bound | Camp for 6 children | $2,800 |
| Braidwood Rural Fire Brigade | 2 power hoses | $8,000 |
| Braidwood Life Centre | Christmas Hampers | $3,000 |
| Brd Show Society | 2012 Show | $1,070 |
| Braidwood Swimming Club | New Lane Ropes | $2,320 |
| Braidwood Community Radio | Outside Broadcasting Equipment | $2,200 |
| Braidwood Lions Club | Billy Cart Derby | $3,000 |
| Braidwood Heritage Festival | Heritage Festival Event | $5,000 |
| Braidwood Quilters | Quilt Event and Vinatge bridal Exhibition | $6,000 |
| Snowy Hydro Southcare | 2012-2013 Sponsorship | $7,500 |
| Araluen Bush Fire Brigade | power hose | $4,376 |
| Braidwood Mens Shed | Construction Shed Contribution | $20,000 |
| Krawaree Rural Fire Brigae | 2 automatic hose reels | $6,650 |
| Braidwood Bowling Club | Stage 2 shade project | $2,050 |
| N Whitfield | Brd Street Historical Book | $3,000 |
| Ballalaba Historical Soc. | Historic book | $3,200 |
| Ballalaba Historical Soc. | Stands/photo laminating | $2,800 |
| Brd Jockey Club | Fashions on the Field | $1,250 |
| Braidwood RU Club | Rugby Jerseys Branding | $3,000 |
| Braidwood. Servicemen's Club | Playground | $20,000 |
| Braidwood Central School | Whiteboards | $19,555 |
| Braidwood Regional Arts Group | Building Refurbishment | $7,568 |
| | | **$127,652** |

# Sponsorships (continued)

## Combined major sponsorship, donations, & grants 2011/12

| Bungendore | | |
|---|---|---|
| **Organization** | **Purpose** | **Amount** |
| Pony Club | State polocrosse championships | $1,500 |
| Bungendore Concert Band | Trivia night | $1,000 |
| Rotary Club | Model train expo | $2,000 |
| Combined Churches | Spring Ball | $5,000 |
| Bung. Showground | Roller door | $4,500 |
| Bungendore Primary School | Fundraiser Night | $2,200 |
| Bungendore Rugby League Football Club | Jersey Branding | $1,900 |
| Bungendore Rugby League Football Club | General Sponsorship | $2,000 |
| Bungendore Netball Team | Team Sponsosrhip | $2,500 |
| Snowy Hydro Southcare | 2012-2013 Sponsorship | $7,500 |
| Bungendore Rural Fire Brigade | Catering Trailer | $8,000 |
| Lake George Mens Shed | Catering Trailer | $8,000 |
| Bung. Junior RL Club | Mick Sherd Oval building | $20,000 |
| | | **$66,100** |

# 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 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:

**Shane Holness**
Chairman
IT Consultant
Board member since June 2008

**Gemma Toleman**
Director
Management Consultant
Board member since September 2009

**Michael Andrews**
Director
Public Servant
Board member since June 2005

**Noel Arthur Wisbey**
Director
Retired Orchardist
Board member since August 2001

**Michael Fay**
Director
Sales Manager
Board member since September 2005

**Michael Wall**
Director
Teacher
Board member since November 2009

**Allan Donnelly**
Director
Podiatrist
Board member since March 2005

**Mary Anne Mathias**
Director
Retired Principal
Board member since January 2009

**Kylie Coe**
Director
Town Planner
Board member since January 2009

**Ian Cargill**
Director
Occupation: Grazier
Board member since July 2011

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

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

**Principal activities**

The principal activities of the company during the course of the financial period were in providing **Community Bank®** services under management rights to operate two franchised branches 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 $187,755 (2011: $189,068).

| Dividends | Year ended 30 June 2012 | |
|---|---|---|
| | Cents per share | $ |
| Dividends paid in the year: | | |
| - Final dividend for the year ended 30 June 2012 | 6 | 79,225 |

**Financial position**

The net assets of the company have increased by $108,530 from 30 June 2011 to $1,343,682 in 2012. The increase is largely due to improved operating performance of the company.

**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 2012/13 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**

The company entered into a rental agreement with an entity related to a Director (Michael Fay) for the rental of the Bungendore branch premises. The agreement is on commercial terms and commenced on 1 July 2006, with rent for the year ended 30 June 2012 being $6,455 (2011: $24,729). The property was purchased from the Director during the 2011/12 year.

No other 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 during the year were:

| Director | Board meetings# |
|---|---|
| Shane Holness | 9 (11) |
| Gemma Toleman | 9 (11) |
| Michael Wall | 6 (11) |
| Allan Donnelly | 7 (11) |
| Michael Andrews | 10 (11) |
| Michael Fay | 9 (11) |
| Noel Arthur Wisbey | 10 (11) |
| Mary Anne Mathias | 10 (11) |
| Kylie Coe | 10 (11) |
| Ian Cargill | 8 (11) |

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

### Company Secretary

Michael Andrews was appointed company Secretary of Palerang Financial Services Limited in March 2007. Michael's experience includes running his own business.

### 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.

## 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 12 of this financial report.

Signed in accordance with a resolution of the Board of Directors at Braidwood, New South Wales on 13 September 2012.

**Shane Holness**
**Chairman**

# Auditor's independence declaration

Richmond Sinnott & Delahunty
Chartered Accountants

Level 2, 10-16 Forest Street
Bendigo, Victoria
PO Box 30, Bendigo, VIC 3552

Telephone: (03) 5445 4200
Fax: (03) 5444 4344
Email: rsd@rsdadvisors.com.au
www.rsdadvisors.com.au

The Directors
Palerang Financial Services Limited
95 Wallace St.
Braidwood NSW 2622

To the Directors of Palerang 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

W Sinnott

**Warren Sinnott**
**Partner**

Bendigo

Dated at Bendigo, 13 September 2012

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

# Financial statements

## Statement of comprehensive income for the year ended 30 June 2012

| | Note | 2012 $ | 2011 $ |
|---|---|---|---|
| Revenues | 2 | 1,925,263 | 1,860,093 |
| Employee benefits expense | 3 | (839,273) | (721,669) |
| Depreciation and amortisation expense | 3 | (44,712) | (38,534) |
| Other expenses | | (413,991) | (500,375) |
| **Operating profit/(loss) before charitable donations & sponsorships** | | **627,287** | **599,515** |
| Charitable donations and sponsorship | | (349,377) | (333,997) |
| **Profit/(loss) before income tax expense** | | **277,910** | **265,518** |
| Income tax expense / (benefit) | 4 | 90,881 | 76,450 |
| **Net Profit/(loss) for the year** | | **187,029** | **189,068** |
| Other comprehensive income | | - | - |
| **Total comprehensive income for the year** | | **187,029** | **189,068** |
| **Earnings per share (cents per share)** | | | |
| - basic for profit for the year | 20 | 14.16 | 14.32 |
| - diluted for profit for the year | 20 | 14.16 | 14.32 |

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 | 82,842 | 440,598 |
| Receivables | 7 | 188,459 | 168,562 |
| **Total current assets** | | **271,301** | **609,160** |
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | 1,281,809 | 796,150 |
| Intangible assets | 9 | 9,256 | 13,570 |
| **Total non-current assets** | | **1,291,065** | **809,720** |
| **Total assets** | | **1,562,366** | **1,418,880** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Current tax liability | 4 | 35,970 | 32,742 |
| Payables | 10 | 68,421 | 50,637 |
| Provisions | 11 | 77,353 | 62,683 |
| **Total current liabilities** | | **181,744** | **146,062** |
| **Non-current liabilities** | | | |
| Deferred tax liability | 4 | 37,666 | 37,666 |
| **Total non-current liabilities** | | **37,666** | **37,666** |
| **Total liabilities** | | **219,410** | **183,728** |
| **Net assets** | | **1,342,956** | **1,235,152** |
| **Equity** | | | |
| Issued capital | 12 | 1,062,849 | 1,062,849 |
| Retained earnings | 13 | 192,220 | 84,416 |
| Asset revaluation reserve | | 87,887 | 87,887 |
| **Total equity** | | **1,342,956** | **1,235,152** |

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 | | 2,090,813 | 1,961,481 |
| Cash payments in the course of operations | | (1,763,441) | (1,712,165) |
| Interest received | | 7,808 | 20,785 |
| Income tax paid | | (87,653) | (60,778) |
| **Net cash flows from operating activities** | **14b** | **247,527** | **209,323** |
| **Cash flows from investing activities** | | | |
| Payment for property, plant and equipment | | (526,058) | (49,867) |
| Proceeds from sale of property, plant & equipment | | - | - |
| Purchase of intangible assets | | - | (11,570) |
| **Net cash flows used in investing activities** | | **(526,058)** | **(61,437)** |
| **Cash flows from financing activities** | | | |
| Dividend paid | | (79,225) | (79,225) |
| Repayment of borrowings | | - | (184) |
| Share issue proceeds | | - | - |
| Adjustment to share capital | | - | - |
| **Net cash flows used in financing activities** | | **(79,225)** | **(79,409)** |
| **Net increase/(decrease) in cash held** | | **(357,756)** | **68,477** |
| Cash and cash equivalents at start of year | | 440,598 | 372,121 |
| **Cash and cash equivalents at end of year** | **14a** | **82,842** | **440,598** |

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 | | 1,062,849 | 1,062,849 |
| Issue of share capital | | - | - |
| Adjustment to share capital | | - | - |
| **Balance at end of year** | | **1,062,849** | **1,062,849** |
| **Retained earnings** | | | |
| Balance at start of year | | 84,416 | (25,427) |
| Profit after income tax expense | | 187,029 | 189,068 |
| Dividends paid | 21 | (79,225) | (79,225) |
| **Balance at end of year** | | **192,220** | **84,416** |
| **Asset revaluation reserve** | | | |
| Balance at start of year | | 87,887 | 87,887 |
| Additions | | - | - |
| **Balance at end of year** | | **87,887** | **87,887** |

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**

Palerang 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 7 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)**

In June 2010 the company received a valuation from Regional Valuers showing the market value of the property at 93-95 Wallace Street, Braidwood is $500,000. This value has been recorded in the financial statements at 30 June 2011.

Depreciation is calculated on a straight line basis over the estimated useful life of the asset as follows:

| Class of asset | Depreciation rate |
|---|---|
| Leasehold improvements | 8% |
| Plant & equipment | 33% |
| Buildings | 2.5% |

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.

## Note 1. Summary of significant accounting policies (continued)

**(e) Goods and services tax (continued)**

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.

**(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) 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)

**(m) 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.

**(n) Comparative figures**

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

**(o) 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:

<u>Estimation of useful lives of assets</u>

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.

<u>Income tax</u>

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

<u>Impairment</u>

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.

**(p) Financial instruments**

<u>Initial recognition and measurement</u>

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.

<u>Classification and subsequent measurement</u>

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)

**(p) 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.

| | 2012 $ | 2011 $ |
|---|---|---|

## Note 2. Revenue

| | | |
|---|---|---|
| **Revenue from continuing activities** | | |
| - services commissions | 1,917,455 | 1,839,308 |
| | **1,917,455** | **1,839,308** |
| **Other revenue** | | |
| - interest received | 7,808 | 20,785 |
| | **7,808** | **20,785** |
| | **1,925,263** | **1,860,093** |

## Note 3. Expenses

| | | |
|---|---|---|
| **Employee benefits expense** | | |
| - wages and salaries | 670,658 | 611,766 |
| - superannuation costs | 62,131 | 59,695 |
| - other costs | 106,484 | 50,208 |
| | **839,273** | **721,669** |

| | 2012 $ | 2011 $ |
|---|---|---|
| **Note 3. Expenses (continued)** | | |
| **Depreciation of non-current assets:** | | |
| - plant and equipment | 23,920 | 18,934 |
| - leasehold improvements | 10,418 | 9,893 |
| - building | 6,060 | 6,060 |
| **Amortisation of non-current assets:** | | |
| - intangible assets | 4,314 | 3,647 |
| | **44,712** | **38,534** |
| Bad debts | 2,900 | 8,326 |

## Note 4. Income tax expense

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

| | | |
|---|---|---|
| Prima facie tax on profit before income tax at 30% | 83,591 | 79,655 |
| Add / (less) tax effect of: | | |
| - Non-deductible expenses | 5,715 | 1,094 |
| - Under / (over) provision of tax in prior year | 1,575 | (4,299) |
| **Current income tax expense** | **90,881** | **76,450** |
| **Income tax expense** | **90,881** | **76,450** |
| **Tax liabilities** | | |
| **Current tax payable** | **35,970** | **32,742** |
| **Deferred tax payable** | **37,666** | **37,666** |

## Note 5. Auditors' remuneration

Remuneration of the Auditor for:

| | | |
|---|---|---|
| - Audit or review of the financial report | 3,900 | 3,900 |
| - Share registry services | 3,623 | 5,828 |
| | **7,523** | **9,728** |

## Note 6. Cash and cash equivalents

| | | |
|---|---|---|
| **Cash at bank and on hand** | **82,842** | **440,598** |

| | 2012 $ | 2011 $ |
|---|---|---|

## Note 7. Receivables

| | 2012 $ | 2011 $ |
|---|---|---|
| **Trade debtors** | **188,459** | **168,562** |

## Note 8. Property, plant and equipment

| | 2012 $ | 2011 $ |
|---|---|---|
| **Land** | | |
| **At cost** | **180,621** | **180,621** |
| **Buildings** | | |
| At cost | 711,826 | 222,994 |
| At valuation | 319,379 | 319,379 |
| Less accumulated depreciation | (77,339) | (71,279) |
| | **953,866** | **471,094** |
| **Leasehold fit out** | | |
| At cost | 126,410 | 126,410 |
| Less accumulated depreciation | (95,541) | (85,123) |
| | **30,869** | **41,287** |
| **Plant and equipment** | | |
| At cost | 176,055 | 138,831 |
| Less accumulated depreciation | (59,602 | (35,683) |
| | **116,453** | **103,148** |
| **Total written down amount** | **1,281,809** | **796,150** |

* Refer to note 1 for details on revaluation.

| | 2012 $ | 2011 $ |
|---|---|---|
| **Movements in carrying amounts** | | |
| **Land** | | |
| Carrying amount at beginning of year | 180,621 | 180,621 |
| Additions | - | - |
| **Carrying amount at end of year** | **180,621** | **180,621** |
| **Buildings** | | |
| Carrying amount at beginning of year | 471,094 | 477,154 |
| Additions | 488,832 | - |
| Revaluation | - | - |
| Depreciation expense | (6,060) | (6,060) |
| **Carrying amount at end of year** | **953,866** | **471,094** |

| | 2012 $ | 2011 $ |
|---|---|---|

## Note 8. Property, plant and equipment (continued)

| **Leasehold fit out** | | |
|---|---|---|
| Carrying amount at beginning of year | 41,287 | 46,529 |
| Additions | - | 4,651 |
| Depreciation expense | (10,418) | (9,893) |
| **Carrying amount at end of year** | **30,869** | **41,287** |
| **Plant and equipment** | | |
| Carrying amount at beginning of year | 103,148 | 76,866 |
| Additions | 37,225 | 45,216 |
| Disposals | - | - |
| Depreciation expense | (23,920) | (18,934) |
| **Carrying amount at end of year** | **116,453** | **103,148** |

## Note 9. Intangible assets

| **Franchise fee** | | |
|---|---|---|
| At cost | 81,570 | 81,570 |
| Less accumulated amortisation | (72,314) | (68,000) |
| | **9,256** | **13,570** |
| **Preliminary expenses** | | |
| At cost | 43,718 | 43,718 |
| Less accumulated amortisation | (43,718) | (43,718) |
| | **-** | **-** |
| | **9,256** | **13,570** |

## Note 10. Payables

| **Current** | | |
|---|---|---|
| **Trade creditors** | **68,421** | **50,637** |

| | 2012 $ | 2011 $ |
|---|---|---|

## Note 11. Provisions

| | 2012 $ | 2011 $ |
|---|---|---|
| **Employee benefits** | **77,353** | **62,683** |
| **Movement in employee benefits** | | |
| Opening balance | 62,683 | 62,683 |
| Additional provisions recognised | 14,670 | 47,059 |
| Amounts utilised during the year | - | (47,059) |
| **Closing balance** | **77,353** | **62,683** |

## Note 12. Share Capital

| | 2012 $ | 2011 $ |
|---|---|---|
| 1,062,849 Ordinary shares fully paid of $1 each | 1,062,849 | 1,062,849 |
| Issue of share capital | - | - |
| Adjustment to share capital | - | - |
| 257,570 fully paid bonus shares issued for no consideration | - | - |
| | **1,062,849** | **1,062,849** |
| The company has authorised share capital amounting to 1,320,419 ordinary shares. | | |
| **Movement in ordinary shares** | | |
| Balance at beginning of year | 1,062,849 | 1,067,752 |
| Issue of share capital | - | 1,797 |
| Adjustment to share capital | - | (6,700) |
| **Balance at end of year** | **1,062,849** | **1,062,849** |

## Note 13. Accumulated surpluses

| | 2012 $ | 2011 $ |
|---|---|---|
| Balance at the beginning of the financial year | 84,416 | (25,427) |
| Profit after income tax | 187,029 | 189,068 |
| Dividend paid | (79,225) | (79,225) |
| **Balance at the end of the financial year** | **192,220** | **84,416** |

| | 2012 $ | 2011 $ |
|---|---|---|

## Note 14. Statement of cash flows

**(a) Cash and cash equivalents**

| | 2012 $ | 2011 $ |
|---|---|---|
| **Cash assets** | **82,842** | **440,598** |
| **(b) Reconciliation of profit after tax to net cash provided from operating activities** | | |
| Profit after income tax | 187,029 | 189,068 |
| Non cash items | | |
| - Depreciation | 40,398 | 34,887 |
| - Amortisation | 4,314 | 3,647 |
| - Deferred tax on revaluation of fixed asset | - | - |
| Changes in assets and liabilities | | |
| - (Increase) decrease in receivables | (19,897) | (15,649) |
| - Increase (decrease) in payables | 17,059 | (18,302) |
| - Increase (decrease) in provisions | 14,670 | - |
| - Increase (decrease) in income tax payable | 3,228 | 15,672 |
| - (Increase) decrease in deferred tax liability | - | - |
| **Net cash flows from operating activities** | **246,801** | **209,323** |

## Note 15. Director and related party disclosures

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

Shane Holness
Gemma Toleman
Michael Wall
Allan Donnelly
Michael Andrews
Michael Fay
Noel Arthur Wisbey
Mary Anne Mathias
Kylie Coe
Ian Cargill

The company entered into a rental agreement with an entity related to a Director (Michael Fay) for the rental of the Bungendore branch premises. The agreement is on commercial terms and commenced on 1 July 2006, with rent for the year ended 30 June 2012 being $6,455 (2011: $24,729). The property rented was purchased from the Director at commercial value during the 2011/12 year. No other Director or related entity has entered into a material contract with the company. No Director's fees have been paid as all positions are held on a voluntary basis.

Note 15. Director and related party disclosures (continued)

| Directors' shareholdings | 2012 | 2011 |
|---|---|---|
| Shane Holness | 2,000 | 2,000 |
| Gemma Toleman | - | - |
| Michael Wall | - | - |
| Allan Donnelly | 5,000 | 5,000 |
| Michael Andrews | 200 | 200 |
| Michael Fay | 1,000 | 1,000 |
| Noel Arthur Wisbey | 6,001 | 6,001 |
| Mary Anne Mathias | - | - |
| Kylie Coe | - | - |
| Ian Cargill | - | - |

There was no movement in Director shareholdings during the year. Each share held is valued at $1 and is fully paid.

## Note 16. 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 17. Contingent liabilities and assets

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

## Note 18. 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 Palerang Shire (incorporating Braidwood and Bungendore) New South Wales. The company has a franchise agreement in place with Bendigo and Adelaide Bank who account for 100% of the revenue (2011: 100%).

## Note 19. Corporate information

Palerang Financial Services Limited is a company limited by shares incorporated in Australia.

The registered office and principal place of business is: 95 Wallace Street, Braidwood NSW 2622.

| | 2012 $ | 2011 $ |
|---|---|---|

## Note 20. 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** | **187,029** | **189,068** |
| **Weighted average number of ordinary shares for basic and diluted earnings per share** | **1,320,419** | **1,320,419** |

## Note 21. Dividends paid or provided for on ordinary shares

| | 2012 $ | 2011 $ |
|---|---|---|
| **(a) Dividends paid during the year** | | |
| (i) Previous year final | | |
| **Franked dividends - 6 cents per share (2010: 4 cents)** | **79,225** | **79,225** |
| **(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 | 166,837 | 113,157 |
| - Franking credits that will arise from the payment / (refund) of income tax payable as at the end of the financial year | 35,970 | - |
| | **202,807** | **113,157** |

The tax rate at which dividends have been franked is 30%.

## Note 22. 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:

| | Note | 2012<br>$ | 2011<br>$ |
|---|---|---|---|
| **Financial assets** | | | |
| Cash & cash equivalents | 6 | 82,842 | 440,598 |
| Receivables | 7 | 188,459 | 168,562 |
| **Total financial assets** | | **271,301** | **609,160** |
| **Financial liabilities** | | | |
| Payables | 10 | 68,421 | 50,637 |
| **Total financial liabilities** | | **68,421** | **50,637** |

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.

**(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<br>$ | 2011<br>$ |
| Cash and cash equivalents | 82,842 | 440,598 |
| Receivables | 188,459 | 168,562 |
| | **271,301** | **609,160** |

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.

## Note 22. Financial risk management (continued)

**(a) Credit risk (continued)**

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

| 30 June 2012 | Total $ | Within 1 year $ | 1 to 5 years $ | Over 5 years $ |
|---|---|---|---|---|
| **Financial liabilities due for payment** | | | | |
| Payables | (68,421) | (68,421) | – | – |
| **Total expected outflows** | **(68,421)** | **(68,421)** | **–** | **–** |
| **Financial assets - cashflow realisable** | | | | |
| Cash & cash equivalents | 82,842 | 82,842 | – | – |
| Receivables | 188,459 | 188,459 | – | – |
| **Total anticipated inflows** | **271,301** | **271,301** | **–** | **–** |
| **Net (outflow)/inflow on financial instruments** | **202,880** | **202,880** | **–** | **–** |

| 30 June 2011 | Total $ | Within 1 year $ | 1 to 5 years $ | Over 5 years $ |
|---|---|---|---|---|
| **Financial liabilities due for payment** | | | | |
| Payables | (50,637) | (50,637) | – | – |
| **Total expected outflows** | **(50,637)** | **(50,637)** | **–** | **–** |
| **Financial assets - cashflow realisable** | | | | |
| Cash & cash equivalents | 440,598 | 440,598 | – | – |
| Receivables | 168,562 | 168,562 | – | – |
| **Total anticipated inflows** | **609,160** | **609,160** | **–** | **–** |
| **Net (outflow)/inflow on financial instruments** | **558,523** | **558,523** | **–** | **–** |

## Note 22. Financial risk management (continued)

**(b) Liquidity risk (continued)**

Financial assets pledged as collateral

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

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 | - | 256,425 |
| Financial liabilities | - | - |
| | **-** | **256,425** |
| **Floating rate instruments** | | |
| Financial assets | 82,842 | 184,173 |
| Financial liabilities | - | - |
| | **82,842** | **184,173** |

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.

## Note 22. Financial risk management (continued)

**(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.

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 Palerang Financial Services Limited,

the Directors of the company declare that:

1 the financial statements and notes of the company as set out on pages 13 to 32 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.

**Shane Holness**
**Chairman**

Signed at Braidwood on 13 September 2012

# Independent audit report

Richmond Sinnott & Delahunty
Chartered Accountants

Level 2, 10-16 Forest Street
Bendigo, Victoria
PO Box 30, Bendigo, VIC 3552

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***INDEPENDENT AUDIT REPORT***
***TO THE MEMBERS OF PALERANG FINANCIAL SERVICES LIMITED***

**Report on the Financial Report**

We have audited the accompanying financial report of Palerang 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 year 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.

*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 Palerang 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 year 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

**RICHMOND SINNOTT & DELAHUNTY**
Chartered Accountants

Sinnott

**W. J. SINNOTT**
Partner

Dated at Bendigo, 13 September 2012


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Bendigo Bank

(BMPAR12000) (00/12)