

Palerang Financial
Services Limited

ABN 83 097 801 100

annual report 2011



Braidwood **Community Bank**[®] Branch

Bungendore **Community Bank**[®] Branch

Contents

Chairman's report	2-3
General Manager's report	4
Bendigo and Adelaide Bank Ltd report	5-6
Sponsorships	7-8
Directors' report	9-12
Financial statements	13-16
Notes to the financial statements	17-35
Directors' declaration	36
Independent audit report	37-38

- Centre pullout feature – Braidwood sponsorships
- Bungendore 5th birthday celebrations
 - Bungendore sponsorships

Chairman's report

For year ending 30 June 2011

The 2010/2011 financial year has seen another very pleasing result for Palerang Financial Services Ltd (PFSL) with both business growth and Company profit exceeding expectations.

A profit before income tax of \$265,518 has been achieved. This has occurred after distributing \$130,134 to community organisations and also putting aside a further \$203,863 for future community projects. The Company will declare a franked dividend of 6 cents as at 1 November 2011, to be paid to shareholders in December.

In January, Noel Wisbey stood down as Chairman and I was humbled to be elected the new Chairman. I wish to thank Noel for his outstanding contribution to our **Community Bank**[®] branches and the community as a whole. Noel continues on the Board as Deputy Chairman and Treasurer.

The Board also accepted the resignation of long serving Director Frank Judge. Frank has been a significant contributor to the Company who at one time was both the Company Secretary and Treasurer. We wish Frank well for the future.

This Company operates with a Board structure to provide the appropriate levels of governance and guidance in its operations. The ten Directors of the Board are all volunteers who contribute significant time and energy to the Company and for which the Company is indebted. I thank them all for their most valuable contributions.

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. With John Blue leaving the Bungendore branch, we have restructured our staffing so that we can provide career paths within the Company and retain our local talent. I congratulate all of our staff on their significant contribution to the success of the Company.

The Company now has 13 permanent staff servicing the community in an exemplary manner and I would like to thank them all for their commitment and dedication. With the continued maintenance of business growth, I particularly would like to congratulate our Senior Manager Craig Pettit and his team for their efforts.

In February, Bendigo and Adelaide Bank Ltd adjusted the margin terms applicable to us for term deposit products so that they reflected the 50/50 intent of the franchise model. In practice, the margins were reflecting 80/20 in our favour. This adjustment has been undertaken and the model is representing 60/40 in our favour at the present time. The net result has been a reduction in revenue from expectation by approximately 4%. Our continued growth has absorbed this change as reflected by revenue being up 18% and overall business growth increasing by over 9%.

In May, our Company was judged to be the winner of the "Hall of Fame" for **Community Bank**[®] branches in the NSW/ACT region. This is a significant accolade and reflects on the outstanding work of everyone involved with the Company since its inception. This award was judged based upon a number of criteria including profitability and contribution back to the community.

Our Bungendore **Community Bank**[®] Branch celebrated its 5th birthday in June. This was a wonderful milestone well celebrated by the community and superbly organised by Cindy Duffus (Branch Manager) and her staff. In the coming year we will be celebrating the 10th birthday of our Braidwood **Community Bank**[®] Branch. I am sure that Nick Fry, Branch Manager, and his staff will organise a most suitable celebration.

Chairman's report continued

► **Hall of Fame winners in the NSW/ACT region.**

Back row: Shane Holness, Craig Pettit and Mick Fay.

Front Row: Mick Andrews, Noel Wisbey, Cindy Duffus, Dion Christie and Allan Donnelly.



The outlook for the Company:

- Business growth rate achieved during 2010/2011 is expected to moderate during 2011/2012. The amount of moderation will depend on the market conditions and the general state of the overall economy.
- The Company will be working hard to improve market share within the region in attempt to improve our growth.
- Provisionally, \$312,000 will be made available for sponsorship and grants during the 2011/2012 financial year.
- PFSL's sponsorship committee is working closely with several community groups in both Bungendore and Braidwood to achieve beneficial outcomes during 2011/2012.
- A forecast of maintaining at least a 6 cent franked dividend, if business conditions do not deteriorate, in 2012.
- To purchase the unit in which Bungendore **Community Bank**[®] Branch operates.

I strongly believe in 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 2011

I would like to start this report by thanking the staff for their hard work during the year. I also would like to welcome new staff members Amy Dawe, Alice Halley and Cyndy Pearce to the staff. I would like to congratulate Cindy Duffus from Bungendore **Community Bank**[®] Branch and Nick Fry Braidwood **Community Bank**[®] Branch who have taken on the tasks of managing their respective branches.

The past year saw business under management grow by \$16 million to \$185 million in total. This represents a 9.4% growth in business for the year. The profitability before tax and charitable donations and sponsorship has increased by 52% to \$599,515.

Last year I commented that the Australian economy was holding up well however this is not proving the case in a lot of areas of the economy. The year saw business growth slow, especially in the first part of this year. This has continued into the new financial year with growth difficult to obtain.

During the year Bendigo and Adelaide Bank Ltd reassessed the profit share with the **Community Bank**[®] branches, which was becoming weighted towards the **Community Bank**[®] branches in certain areas. The original intent of the profit share was to split the income 50/50. This resulted in our annual income being reduced by approximately \$80,000. We have recovered the majority of this income on a monthly basis and should soon be again seeing growth in the business.

There is however a large financial market in Palerang Financial Services Limited's region and we are confident of improving our market share which will see continued growth in the business.

Some of the highlights of the year are as follows:

- Revenue for the year of \$1,860,093 being a 18% increase over the previous year
- Profit before tax, donations and sponsorship of \$599,515
- \$333,997 allocated for sponsorship and community projects
- Dividend to be paid of 6% fully franked.

I wish to thank the Directors for all the support and work they have done over the past 12 months.

As we approach our 10th year of operation it is truly satisfying to see the community benefits following from the efforts of the team that I have had the pleasure to lead.

I would also like to invite anyone who is not yet a customer of Bungendore & Braidwood **Community Bank**[®] branches to contact us for your banking needs, your community will benefit.



Craig Pettit
General Manager

Bendigo and Adelaide Bank Ltd report

For year ending 30 June 2011

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 organising and strengthening community.

Together, we have reached new heights and achieved many great successes, all of which has been underpinned by our commitment and dedication to the communities we're a part of.

Together we're making extraordinary progress, with more than \$58.25 million returned to support community groups and endeavours since the network was established in 1998.

The returns grow exponentially each year, with \$469 thousand 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. Based on this, we can predict the community returns should top \$100 million within the next three years, which equates to new community facilities, better health care, increased transport services and generally speaking, more prosperous communities.

Together, we haven't just returned \$58.25 million; there is also the flow on economic impact to consider. Bendigo and Adelaide Bank is in the process of establishing an evidential basis that captures the complete picture and the economic outcomes these initiatives generate. However, the tangible outcomes are obvious. We see it in tenanted shops, increased consumer traffic, retained local capital and new jobs but we know that there are broader elements of community strength beyond the economic indicators, which demonstrate the power of our community models.

It is now evident that branches go through a clear maturity phase, building customer support, generating surpluses and establishing a sustainable income stream. This enables Boards to focus less on generating business and more on the community's aspirations. Bendigo is facilitating this through Director engagement and education, community consultations and other community solutions (Community Enterprise Foundation[™], Community Sector Banking, Community Telco, Generation Green[™] and Community Enterprises) that will provide Boards with further development options.

In Bendigo, your **Community Bank**[®] Board has a committed and successful partner. Our past efforts and continued commitment to be Australia's leading customer-connected bank, that is relevant, connected and valued, is starting to attract attention and reap rewards.

In January, a Roy Morgan survey into customer satisfaction saw Bendigo Bank achieve an industry leading score among Australian retail banks. This was the first time Bendigo Bank has led the overall results since August 2009.

In May, Fitch Ratings upgraded Bendigo and Adelaide Banks Long-Term Issuer Default Rating (IDR) to A- from BBB+. This announcement saw us become the first Australian bank – and one of the very few banks globally – to receive an upgrade since the Global Financial Crisis.

Standard & Poor's revised credit rating soon followed seeing Bendigo and Adelaide Bank shift from BBB+ stable, to BBB+ positive. These announcements reflect the hard and diligent work by all our staff, our sound risk management practices, low-risk funding and balance sheet structure, sound capital ratios and a sustained improvement in profitability.

The strength of our business model – based on our commitment to our customers and the communities that we operate in – is being recognised by all three ratings agencies.

Bendigo and Adelaide Bank Ltd report continued

Over the past year the bank has also added more than 700 additional ATMs through a network sharing agreement with Suncorp Bank, which further enhances our customers' convenience and expands our footprint across the country. In addition to this a further 16 **Community Bank**[®] branches were opened.

The bank has also had a renewed focus on business banking and re-launched our wealth management services through Bendigo Wealth, which oversees the Adelaide Bank, Leveraged Equities, Sandhurst Trustees and financial planning offering.

The **Community Bank**[®] model is unique and successful, it's one of our major points of difference and it enables us to connect with more than 550,000 customers, in excess of 270 communities and make a difference in the lives of countless people.

We are very proud of the model we have developed and we're very thankful for the opportunity to partner with communities to help build their balance sheets.

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



Russell Jenkins
Executive Customer and Community

Sponsorships

Sponsorship given by Palerang Financial Services for 2010/11 Financial Year

Recipient	Purpose	Amount
Bungendore Mens Shed	Bungendore Bowling Club Hire for AGM	\$136
Braidwood Care	Christmas Hampers	\$1,000
Bungendore Rodeo Club	Repairs following damage to grounds	\$2,500
Bungendore Rotary	Fundraiser for Youth of Bungendore	\$2,000
Bungendore Concert Band	Hall Rental	\$90
Bungendore Tennis Club	Clubhouse refurb	\$1,000
St Marys & St Phillips Spring Ball	Bungendore Annual Spring Ball Fundraiser for the poor & needy	\$1,500
Braidwood Rugby Union Football Club	Braidwood Recreation Ground Storage Shed	\$6,500
Bungendore Primary School	Sports Club	\$11
Braidwood Servicemens Club	Members Draw	\$2,000
Bungendore Cook Off	Event	\$73
St Bedes Primary School	Note book computers	\$7,000
Braidwood National Theatre	Hot Water Service Replacement	\$2,000
Braidwood Ladies Bowls Club	Tournament Sponsorship	\$600
Queanbeyan Capts Flat Community Assoc	Captains Flat Ball	\$500
Mulloon Rural Fire Brigade	Hose Reel	\$3,500
Braidwood Ladies Bowls Club	Tournament Sponsorship	\$300
Braidwood Lions Club	Bill Cart Derby 2011	\$3,000
Bungendore Seniors and Superannuates	Seniors Lunch	\$383
Community Enterprise Foundation	Queensland Flood Appeal	\$5,000
Community Enterprise Foundation	Victorian Flood Appeal	\$5,000
Special Child Xmas	Special Child Xmas Donation	\$50
Poets Breakfast Muster	Breakfast for Bungendore Muster	\$510
Braidwood swimming Club	Equipment	\$268
Community Enterprise Foundation	Donation to Cyclone YASI Appeal	\$2,000
Bungendore Rugby Club	Marquee	\$3,500
Rotary Club of Bungendore	Marquee	\$3,500
Braidwood Hospital Auxillary	UHA Southern Area Region Zone Conference	\$2,000
Braidwood Jockey Club	Braidwood Race Day	\$1,250
Bungendore Swimming Club	Replace Pool Blanket	\$2,000

Sponsorships continued

Recipient	Purpose	Amount
Braidwood Literary Institute	Evening of Electia	\$500
Krawaree Fire Brigade	Purchase of Fridge for Fire Shed	\$1,182
Peter Hugonnet	Boer War Plaque Dedication	\$200
Braidwood Care	Christmas Hampers	\$2,000
Lake George Mens Shed	Mens Shed Set up	\$20,000
Snowy Hydro Southcare	Donations to Running Costs	\$12,000
Bungendore Volunteer Rural Fire Brigade	Electric Hose Rell	\$3,182
Bungendore P&C	Bus running costs for transport to Reconciliation Walk in Canberra	\$400
Bungendore 1st Scouts	Towards building Scout Hall	\$22,000
Braidwood Golf Club	Putting green & driving nets	\$4,000
Braidwood Bowls Club	Shade covers	\$4,000
Bungendore Spring Fair	Competition prizes	\$1,500
Total		\$130,135

Directors' report

For the financial year ended 30 June 2011

Your Directors submit the financial report of the Company for the financial year ended 30 June 2011.

Directors

The names and details of the Company's Directors who held office during or since the end of the financial year are:

Shane Holness

Chairman
IT Consultant

Frank David Judge (resigned 16 March 2011)

Director
Retired Accountant

Gemma Toleman

Director
Management Consultant

Michael Wall

Director
Teacher

Michael Andrews

Director
Public Servant

Allan Donnelly

Director
Podiatrist

Noel Arthur Wisbey

Director
Retired Orchardist

Mary Anne Mathias

Director
Retired Principal

Michael Fay

Director
Sales Manager

Kylie Coe

Director
Town Planner

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 Ltd.

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

Review of operations

Operations have continued to perform in line with expectations. The profit of the Company for the financial year after provision for income tax was \$189,068 (2010: \$107,438).

Directors' report continued

Dividends	Year ended 30 June 2011	
	Cents per share	\$'000
Dividends paid in the year:		
- Final dividend for the year ended 30 June 2011	6	79,225

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.

Significant events after the balance date

Since the balance date, world financial markets have shown volatility that may have an impact on investment earnings in the 2011/12 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.

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 2011 being \$24,729 (2010: \$22,815).

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.

Indemnification and insurance of Directors and Officers

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 incurred 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 or a related body corporate.

Directors' report continued

Directors' meetings

The number of Directors' meetings attended during the year were:

Director	Board meetings #
Shane Holness	10 (11)
Gemma Toleman	9 (11)
Frank David Judge (resigned 16 March 2011)	2 (11)
Michael Wall	9 (11)
Allan Donnelly	9 (11)
Michael Andrews	9 (11)
Michael Fay	9 (11)
Noel Arthur Wisbey	10 (11)
Mary Anne Mathias	9 (11)
Kylie Coe	9 (11)

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

Company Secretary

Mick Andrews was appointed Company Secretary of Palerang Financial Services Limited in March 2007. Mick'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.

Directors' report continued

Auditor independence declaration

The Directors received the following declaration from the Auditor of the Company:



Chartered Accountants
16 September 2011

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

Dear Sirs

Auditor's Independence Declaration

In relation to our audit of the financial report of Palerang Financial Services Limited for the year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Warren Sinnott
Partner
Richmond Sinnott & Delahunty

Signed in accordance with a resolution of the Board of Directors at Braidwood, New South Wales on 16 September 2011.



Shane Holness, Chairman

Financial statements

Statement of comprehensive income for the year ended 30 June 2011

	Note	2011 \$	2010 \$
Revenues from continuing operations	2	1,860,093	1,517,949
Employee benefits expense	3	(721,669)	(699,504)
Charitable donations and sponsorship		(333,997)	(224,623)
Depreciation and amortisation expense	3	(38,534)	(51,999)
Other expenses		(500,375)	(372,095)
Profit before income tax expense		265,518	169,728
Income tax expense	4	76,450	62,290
Profit after income tax expense		189,068	107,438
Other comprehensive income		-	87,887
Total comprehensive income		189,068	195,325
Earnings per share (cents per share)			
- basic for profit for the year	20	14.32	8.14
- diluted for profit for the year	20	14.32	8.14

The accompanying notes form part of these financial statements.

Financial statements continued

Statement of financial position as at 30 June 2011

	Note	2011 \$	2010 \$
Current assets			
Cash and cash equivalents	6	440,598	372,121
Receivables	7	168,562	152,913
Total current assets		609,160	525,034
Non-current assets			
Property, plant and equipment	8	796,150	781,170
Intangible assets	9	13,570	5,647
Total non-current assets		809,720	786,817
Total assets		1,418,880	1,311,851
Current liabilities			
Current tax liability	4	32,742 -	17,070
Payables	10	50,637 -	68,939
Provisions	11	62,683	62,683
Total current liabilities		146,062	148,692
Non-current liabilities			
Bank loan	10	-	184
Deferred tax liability	4	37,666	37,666
Total non-current liabilities		37,666	37,850
Total liabilities		183,728	186,542
Net assets		1,235,152	1,125,309
Equity			
Share capital	12	1,062,849	1,062,849
Accumulated losses	13	84,416	(25,427)
Asset revaluation reserve		87,887	87,887
Total equity		1,235,152	1,125,309

The accompanying notes form part of these financial statements.

Financial statements continued

Statement of cash flows for the year ended 30 June 2011

	Note	2011 \$	2010 \$
Cash flows from operating activities			
Cash receipts in the course of operations		1,961,481	1,626,691
Cash payments in the course of operations		(1,712,165)	(1,413,794)
Interest received		20,785	11,084
Income tax paid		(60,778)	(80,208)
Net cash flows from operating activities	14b	209,323	143,773
Cash flows from investing activities			
Payment for property, plant and equipment		(49,867)	(75,388)
Proceeds from sale of property, plant & equipment		-	6,978
Purchase of intangible assets		(11,570)	-
Net cash flows used in investing activities		(61,437)	(68,410)
Cash flows from financing activities			
Dividend paid		(79,225)	(52,817)
Repayment of borrowings		(184)	(264)
Share issue proceeds		-	1,797
Adjustment to share capital		-	(6,700)
Net cash flows used in financing activities		(79,409)	(57,984)
Net increase/(decrease) in cash held		68,477	17,379
Cash and cash equivalents at start of year		372,121	354,742
Cash and cash equivalents at end of year	14a	440,598	372,121

The accompanying notes form part of these financial statements.

Financial statements continued

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

	Note	2011 \$	2010 \$
Share capital			
Balance at start 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
Retained earnings / (accumulated losses)			
Balance at start of year		(25,427)	(80,048)
Profit after income tax expense		189,068	107,438
Dividends paid	21	(79,225)	(52,817)
Balance at end of year		84,416	(25,427)
Asset revaluation reserve			
Balance at start of year		87,887	-
Additions		-	87,887
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 2011

Note 1. Basis of preparation of the financial report

(a) Basis of preparation

Palerang Financial Services Limited ("the Company") is domiciled in Australia. The financial statements for the year ending 30 June 2011 are presented in Australian dollars. The Company was incorporated in Australia and the principal operations involve providing **Community Bank**[®] services.

The financial statements have been prepared on an accruals basis and are based on historical costs and do not take into account changing money values or, except where stated, current valuations of non-current assets.

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 16 September 2011.

(b) Statement of compliance

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The financial report of the Company complies with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board. Australian Accounting Standards that have been recently issued or amended, but are not yet effective, have not been adopted in the preparation of this financial report. These changes are not expected to have a material impact on the Company's financial statements.

(c) Significant accounting policies

The following is a summary of the material accounting policies adopted. The accounting policies have been consistently applied and are consistent with those applied in the 30 June 2010 financial statements.

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.

Notes to the financial statements continued

Note 1. Basis of preparation of the financial report (continued)

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.

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.

Recoverable amount 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.

Braidwood sponsorships



5th birthday celebrations!



Piggy competition

Piggy competition section winners. Clockwise from above left: Infants winner, Preschool winner, Primary school winner, Big kids winner, Corporate winner Body & Soap Australia.





Bungendore sponsorships



Bendigo and Adelaide Bank Limited, The Bendigo Centre, Bendigo VIC 3550. ABN 11 068 049 178. AFSL 237879. BMPAR11082 (07/09/11)

Notes to the financial statements continued

Note 1. Basis of preparation of the financial report (continued)

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.

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.

Intangibles

Establishment costs have been initially recorded at cost and amortised on a straight line basis at a rate of 20% per annum.

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.

Revenue

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

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.

Notes to the financial statements continued

Note 1. Basis of preparation of the financial report (continued)

Loans and borrowings

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

Provisions

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

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

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.

Comparative figures

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

	2011	2010
	\$	\$

Note 2. Revenue from ordinary activities

Operating activities:

- services commissions	1,839,308	1,506,865
	1,839,308	1,506,865

Non-operating activities:

- interest received	20,785	11,084
	20,785	11,084
	1,860,093	1,517,949

Notes to the financial statements continued

	2011 \$	2010 \$
Note 3. Expenses		
Employee benefits expense		
- wages and salaries	611,766	581,649
- superannuation costs	59,695	51,951
- other costs	50,208	65,904
	721,669	699,504
Depreciation of non-current assets:		
- plant and equipment	18,934	12,560
- leasehold improvements	9,893	9,720
- building	6,060	22,860
Amortisation of non-current assets:		
- intangibles	3,647	6,859
	38,534	51,999
Bad debts	8,326	1,915

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%	79,655	50,918
Add / (less) tax effect of:		
- Non-deductible expenses	1,094	5,055
- Under / (over) provision of tax in prior year	(4,299)	6,317
Current income tax expense	76,450	62,290
Income tax expense	76,450	62,290
Tax liabilities		
Current tax payable	32,742	17,070
Deferred tax payable	37,666	37,666

Notes to the financial statements continued

	2011 \$	2010 \$
Note 5. Auditors' remuneration		
Amounts received or due and receivable by Richmond, Sinnott & Delahunty for:		
- Audit or review of the financial report of the Company	3,900	3,900
- Share registry services	5,828	3,725
	9,728	7,625

Note 6. Cash and cash equivalents

Cash at bank and on hand	440,598	372,121
---------------------------------	----------------	----------------

Note 7. Receivables

Trade debtors	168,562	152,913
----------------------	----------------	----------------

Note 8. Property, plant and equipment

Land		
At cost	180,621	180,621
Buildings		
At cost / valuation*	542,373	542,373
Less accumulated depreciation	(71,279)	(65,219)
	471,094	477,154
Leasehold fit out		
At cost	126,410	121,758
Less accumulated depreciation	(85,123)	(75,229)
	41,287	46,529
Plant and equipment		
At cost	138,831	93,615
Less accumulated depreciation	(35,683)	(16,749)
	103,148	76,866
Total written down amount	796,150	781,170

* Refer to note 1 for details on revaluation.

Notes to the financial statements continued

	2011 \$	2010 \$
Note 8. Property, plant and equipment (continued)		
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	477,154	374,461
Additions	-	-
Revaluation	-	125,553
Depreciation expense	(6,060)	(22,860)
Carrying amount at end of year	471,094	477,154
Leasehold fit out		
Carrying amount at beginning of year	46,529	56,249
Additions	4,651	-
Depreciation expense	(9,893)	(9,720)
Carrying amount at end of year	41,287	46,529
Plant and equipment		
Carrying amount at beginning of year	76,866	21,016
Additions	45,216	75,388
Disposals	-	(6,978)
Depreciation expense	(18,934)	(12,560)
Carrying amount at end of year	103,148	76,866

Note 9. Intangible assets

Franchise fee

At cost	81,570	70,000
Less accumulated amortisation	(68,000)	(65,145)
	13,570	4,855

Notes to the financial statements continued

	2011 \$	2010 \$
Note 9. Intangible assets (continued)		
Preliminary expenses		
At cost	43,718	43,718
Less accumulated amortisation	(43,718)	(42,926)
	-	792
	13,570	5,647

Note 10. Payables

Current		
Trade creditors	50,637	68,939
Non current		
Bank loan	-	184

Note 11. Provisions

Employee benefits	62,683	62,683
Movement in employee benefits		
Opening balance	62,683	52,695
Additional provisions recognised	47,059	44,742
Amounts utilised during the year	(47,059)	(34,754)
Closing balance	62,683	62,683

Note 12. Share capital

1,062,849 Ordinary shares fully paid of \$1 each	1,062,849	1,067,752
Issue of share capital	-	1,797
Adjustment to share capital	-	(6,700)
257,570 fully paid bonus shares issued for no consideration	-	-
	1,062,849	1,062,849

Notes to the financial statements continued

	2011 \$	2010 \$
Note 12. Share capital (continued)		
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 losses

Balance at the beginning of the financial year	(25,427)	(80,048)
Profit after income tax	189,068	107,438
Dividend paid	(79,225)	(52,817)
Balance at the end of the financial year	84,416	(25,427)

Note 14. Statement of cash flows

(a) Cash and cash equivalents

Cash assets	440,598	372,121
--------------------	----------------	----------------

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

Profit after income tax	189,068	107,438
Non cash items		
- Depreciation	34,887	45,140
- Amortisation	3,647	6,859
- Deferred tax on revaluation of fixed asset	-	(37,666)
Changes in assets and liabilities		
- (Increase) decrease in receivables	(15,649)	(32,566)
- Increase (decrease) in payables	(18,302)	24,832
- Increase (decrease) in provisions	-	9,988
- Increase (decrease) in income tax payable	15,672	(17,918)
- (Increase) decrease in deferred tax liability	-	37,666
Net cash flows from operating activities	209,323	143,773

Notes to the financial statements continued

Note 15. Director and related party disclosures

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

Shane Holness
Gemma Toleman
Frank David Judge (resigned 16 March 2011)
Michael Wall
Allan Donnelly
Michael Andrews
Michael Fay
Noel Arthur Wisbey
Mary Anne Mathias
Kylie Coe

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 2011 being \$24,729 (2010: \$22,815). No other Director or related entity has entered into a material contract with the Company. No Directors' fees have been paid as all positions are held on a voluntary basis.

Directors' shareholdings	2011	2010
Shane Holness	2,000	2,000
Gemma Toleman	-	-
Frank David Judge (resigned 16 March 2011)	750	750
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	-	-

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

Notes to the financial statements continued

Note 16. Subsequent events

Since the balance date, world financial markets have shown volatility that may have an impact on investment earnings in the 2011/12 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. Segment reporting

The economic entity operates in the financial services sector where it provides banking services to its clients. The economic entity operates in one geographic area being the Palerang Shire (incorporating Braidwood and Bungendore) New South Wales.

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

	2011	2010
	\$	\$

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:

Profit after income tax expense	189,068	107,438
Weighted average number of ordinary shares for basic and diluted earnings per share	1,320,419	1,320,419

Notes to the financial statements continued

	2011 \$	2010 \$
Note 21. Dividends paid or provided for on ordinary shares		
(a) Dividends paid during the year		
(i) Previous year final		
Franked dividends - 6 cents per share (2010: 4 cents)	79,225	52,817
(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	113,157	86,333
- Franking credits that will arise from the payment / (refund) of income tax payable as at the end of the financial year	32,742	17,070
	145,899	103,403

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

Note 22. Financial risk management

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

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

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board is assisted in the area of risk management by an internal audit function.

(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	
	2011 \$	2010 \$
Cash assets	440,598	372,121
Receivables	168,562	152,913
	609,160	525,034

Notes to the financial statements continued

Note 22. Financial risk management (continued)

(a) Credit risk (continued)

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 Ltd.

None of the assets of the Company are past due (2010: 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 Ltd.

(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.

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

	Carrying amount \$	Contractual cash flows \$	1 year or less \$	Over 1 to 5 years \$	More than 5 years \$
30 June 2011					
Payables	50,637	(50,637)	(50,637)	-	-
	50,637	(50,637)	(50,637)	-	-
30 June 2010					
Payables	68,939	(68,939)	(68,939)	-	-
Loans and borrowings	184	(184)	(184)	-	-
	69,123	(69,123)	(69,123)	-	-

(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.

Notes to the financial statements continued

Note 22. Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk

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	
	2011	2010
	\$	\$
Fixed rate instruments		
Financial assets	256,425	315,549
Financial liabilities	-	-
	256,425	315,549
Variable rate instruments		
Financial assets	184,173	56,572
Financial liabilities	-	(184)
	184,173	56,388

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 2010 there was also no impact. As at both dates this assumes all other variables remain constant.

(d) Net fair values

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

Notes to the financial statements continued

Note 22. Financial risk management (continued)

(e) Capital management

The Board's policy is to maintain a strong capital base so as to sustain future development of the Company. The Board of Directors monitor the return on capital and the level of dividends to shareholders. Capital is represented by total equity as recorded in the Statement of Financial Position.

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

- (i) the Distribution Limit is the greater of:
 - (a) 20% of the profit or funds of the Franchisee otherwise available for distribution to shareholders in that 12 month period; and
 - (b) subject to the availability of distributable profits, the Relevant Rate of Return multiplied by the average level of share capital of the Franchisee over that 12 month period; and
- (ii) the Relevant Rate of Return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period plus 5%.

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

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

Directors' declaration

In accordance with a resolution of the Directors of Palerang Financial Services Limited, I state that:

In the opinion of the Directors:

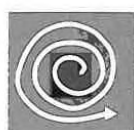
- (a) the financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2011 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia, International Financial Reporting Standards and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.



Shane Holness, Chairman

Signed at Braidwood on 16 September 2011

Independent audit report



**Richmond
Sinnott &
Delahunty**

Chartered Accountants

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

SCOPE

The financial report comprises the statement of financial position, statement of comprehensive income, statement of cash flows, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for Palerang Financial Services Limited, for the year ended 30 June 2011.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are established to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant account estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Partners: Kenneth J Richmond • Warren J Sinnott • Philip P Delahunty • Brett A Andrews
Level 2, 10-16 Forest Street, Bendigo 3550. PO Box 30 Bendigo 3552
Ph: 03 5443 1177 Fax: 03 5444 4344 Email: rsd@rsdadvisors.com.au
ABN 60 616 244 309

Liability limited by a scheme approved under Professional Standards Legislation

Independent audit report continued

INDEPENDENCE

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

AUDIT OPINION

In our opinion, the financial report of Palerang Financial Services Limited is in accordance with:

- (a) the Corporations Act 2001 including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

Richmond Sinnott & Delahunty
RICHMOND SINNOTT & DELAHUNTY
Chartered Accountants

W. J. Sinnott

W. J. SINNOTT
Partner
Bendigo

Date: 16 September 2011



Braidwood **Community Bank**® Branch
95 Wallace Street, Braidwood NSW 2622
Phone: (02) 4842 1700

Bungendore **Community Bank**® Branch
1/33 Ellendon Street, Bungendore NSW 2621
Phone: (02) 6238 0547

Franchisee: Palerang Financial Services Limited
93-95 Wallace Street, Braidwood NSW 2622
ABN: 83 097 801 100

www.bendigobank.com.au
Bendigo and Adelaide Bank Limited,
The Bendigo Centre, Bendigo VIC 3550
ABN 11 068 049 178. AFSL 237879.
(BMPAR11082) (09/11)

