

 Provident Capital[®]

FOR FINANCE AND INVESTMENT



Annual Financial Report
For the year ended 30 June 2008



Financial Report for the year ended 30 June 2008

Contents

Company particulars.....	2
Directors' report	3
Auditor's independence declaration	6
Income statement.....	7
Balance sheet.....	8
Statement of changes in equity.....	9
Cash flow statement.....	10
Notes to the financial statements.....	11
Directors' declaration	32
Independent audit report to the members	

Provident Capital Limited
ABN 78 082 735 573

This financial report covers Provident Capital Limited (the “Company”) as an individual entity. The financial report is presented in the Australian currency.

Provident Capital Limited is a public company, incorporated and domiciled in Australia. Its registered office is outlined on page 2.

The financial report was authorised for issue by the directors on 30th September 2008.

Company particulars

Directors	Michael R O’Sullivan Chairman, Managing Director Trevor J Seymour Malcolm P Bersten John P Sweeney (Appointed 30 July 2008)
Company Secretary	Salman Haq
Principal Registered Office	Level 42, Tower Building, Australia Square 264-278 George Street, Sydney NSW 2000
Debenture Register	Level 42, Tower Building, Australia Square 264-278 George Street, Sydney NSW 2000
Share Register	Level 42, Tower Building, Australia Square 264-278 George Street, Sydney NSW 2000
Auditor	Walter Turnbull Chartered Accountants Level 13, 321 Kent Street, Sydney NSW 2000
Trustee for Debenture Holders	Australian Executor Trustees Limited ABN 84007869794 Level 22, 207 Kent Street Sydney NSW 2000
Stock Exchange Listing	Provident Capital Limited is an unlisted public company.

Directors' report

For the year ended 30 June 2008

The directors present their report on Provident Capital Limited for the financial year ended 30 June 2008.

Directors

The names of the directors in office during the financial year and up to the date of this report for the respective periods were:

Michael Roger O'Sullivan – to the date of this report
Trevor John Seymour – to the date of this report
Malcolm Phillip Bersten – to the date of this report
John Patrick Sweeney – from date of his appointment on 30 July 2008 to the date of this report

Company secretary

The name of the Company secretary in office during the financial year and up to the date of this report for the respective periods was:

Salman Haq – to the date of this report

Principal activities

The principal activities of the Company in the course of the year were fixed rate mortgage lending and the issuing of fixed rate debentures. No significant change in the nature of these activities occurred during the year.

Review of operations and results

The profit of the Company for the year ended 30 June 2008, after providing for income tax, amounted to \$2,985,750 (2007: \$3,354,467). No significant changes in the Company's state of affairs occurred during the financial year.

Dividends paid or recommended

Dividends of \$2,250,000 (2007: \$2,250,000) were paid during the year.

Insurance of officers

During the financial year, the Company paid a premium to insure the directors and officers of the Company. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the nature of the liability covered and the amount of the premium paid.

The Company has entered into Indemnity Deeds with each of the four directors and the secretary under which the Company indemnifies those officers against all liabilities and expenses incurred in connection with acting as an officer of the Company, except where such indemnity is prohibited or restricted by law, and the Company must advance funds to the officer for legal expenses incurred pending a determination of the officer's entitlement to indemnity.

Matters subsequent to the end of the financial year

Other than as disclosed in note 23, no other matter or circumstance has arisen since 30 June 2008 that has significantly affected or may significantly affect the Company's operations or the result of those operations, or the Company's affairs in future financial years.

Likely developments and expected results of operations

Further information as to the likely developments in the operations of the Company, including expected results of those operations in subsequent financial years would, in the opinion of the directors, prejudice the interests of the Company, and have therefore not been included in this report.

Environmental regulation

The Company is not subject to any significant environmental regulation in respect of its general activities.

Auditor

Walter Turnbull was appointed as Auditors of the Company during the year and continue in office in accordance with section 327 of the *Corporations Act 2001*.

Auditor's independence declaration

The lead auditor's independence declaration for the year ended 30 June 2008 as required under section 307C of the *Corporations Act 2001* has been received and can be found on page 6 of this report.

Information on directors and secretary

Director / Officer	Experience	Special responsibilities	Particulars of director's interest in shares and options of Provident Capital Limited
Michael R O'Sullivan MPFP, FAICD	Managing Director since incorporation. Over 15 years experience in finance and investment.	Chairman and Managing Director	Michael O'Sullivan is a director and shareholder of Provident Asset Management Pty Limited which is trustee of the O'Sullivan Trust and Provident Trust which hold all 100,000 ordinary shares in Provident Capital Limited.
Trevor J Seymour PNA, FAICD	Director since incorporation. Partner of brentnalls ^{nsw} , Chartered Accountants. Over 10 years banking experience	Non-executive Director. Chairman of Audit and Compliance Committee	NIL
Malcolm P Bersten B.Com, LL.B, FAICD	Director since 2000. Solicitor with over 25 years experience in business finance and property law.	Executive Director and Legal Counsel (from 1 July 2007) Member of Audit and Compliance Committee.	NIL
John P Sweeney FCPA, FAICD	Director since 30 July 2008. Business consultant and former managing director of ORIX Australia Corporation Limited.	Non-executive Director.	NIL
Salman Haq FCIS, CA, FCA (England and Wales)	Company Secretary since 2000. Chartered Accountant and Chartered Secretary with over 25 years professional experience.	Company Secretary	NIL

Audit and Compliance Committee (ACC)

The role of the ACC is to monitor and review the effectiveness of the control environment in the Company in the areas of operation and balance sheet risk, legal/regulatory (including FSR) compliance and financial reporting. The committee consists of two directors Trevor J Seymour (Chairman) and Malcolm P Bersten. All internal and external audit reports are reviewed by the committee.

Proceedings on Behalf of the 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.

Meetings of directors and committees

The number of meetings of the Company's board of directors and the Audit and Compliance Committee (ACC) held during the year ended 30 June 2008 and the number of meetings attended by each director were:

	Board of Directors	ACC
Number of meetings held	15	11
Number of meetings attended by:		
Michael R O'Sullivan	15	N/A
Trevor J Seymour	15	11
Malcolm P Bersten	15	11

Signed at Sydney on 30 September 2008 in accordance with a resolution of the board of directors:

Michael R O'Sullivan
Director



WALTERTURNBULL
your extra asset

PROVIDENT CAPITAL LIMITED
ABN 78 082 735 573

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF PROVIDENT CAPITAL LIMITED**

I declare that to the best of my knowledge and belief, during the year ended 30 June 2008 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001, in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

WalterTurnbull
Don Walter, FCA
Registered Company Auditor

Sydney, NSW
Tuesday, 30 September 2008

Level 13
321 Kent Street
Sydney NSW 2000
GPO Box 3808
Sydney NSW 2001
Tel 02 9299 4678
Fax 02 9299 3131
www.walterturnbull.com.au
walterturnbull@walterturnbull.com.au
A division of
Walter Turnbull Pty Ltd
ABN 92 009 740 879

BUSINESS ADVISORY SERVICES

ASSURANCE SERVICES

MANAGEMENT CONSULTING

FINANCIAL PLANNING

FRAUD & FORENSIC SERVICES

ACCOUNTING SOLUTIONS



Income statement

For the year ended 30 June 2008

	Notes	30 June 2008	30 June 2007
		\$	\$
Income			
Interest income	4	29,008,581	28,149,131
Less: Interest expense	4	17,628,585	17,817,227
Net interest income		11,379,996	10,331,904
Non interest income	4	1,708,068	2,035,735
Net Operating income		13,088,064	12,367,639
Expenses from ordinary activities			
Employee benefits expense		3,769,850	3,804,487
Marketing expenses		990,400	1,876,041
Professional fees		670,190	530,432
Occupancy expenses		694,212	454,880
Impairment of loans and receivables	8	1,531,383	302,373
Depreciation expense		228,084	118,821
Commission & Brokerage expense		253,661	-
Telephone expense		85,126	87,992
Other expenses		583,840	392,855
Total expenses from ordinary activities		8,806,746	7,567,881
Profit before income tax expense		4,281,318	4,799,758
Less: Income tax expense	6a	1,295,568	1,445,291
Profit attributable to members of the Company		2,985,750	3,354,467
Weighted average number of shares outstanding during the year used in calculating basic earnings per share (EPS)		100,000	100,000
EPS from continuing operations		29.86	33.54

The above income statement should be read in conjunction with the accompanying notes.

Balance sheet

As at 30 June 2008

	Notes	30 June 2008 \$	30 June 2007 \$
Assets			
Current assets			
Cash and cash equivalents	7	24,328,109	4,305,675
Interest receivable	9	8,065,360	7,245,878
Loans and advances	8	177,505,337	196,716,353
Commercial bills		2,124,764	1,633,173
Current tax asset		179,828	110,162
Security deposits		314,314	-
Other financial assets	10	2,194,843	127,811
Other assets	11	555,100	288,375
Total current assets		215,267,655	210,427,427
Non-current assets			
Loans and advances	8	15,315,257	19,534,263
Property, plant and equipment	12	639,094	248,910
Deferred tax assets	6c	1,077,115	1,082,835
Security deposits		7,535,125	351,660
Total non-current assets		24,566,591	21,217,668
Total assets		239,834,246	231,645,095
Liabilities			
Current liabilities			
Trade and other payables	13	8,236,928	8,774,948
Provisions	14	282,831	204,767
Financial liabilities	15	152,574,290	137,619,490
Total current liabilities		161,094,049	146,599,205
Non-current liabilities			
Financial liabilities	15	64,264,187	71,305,630
Total non-current liabilities		64,264,187	71,305,630
Total liabilities		225,358,236	217,904,833
Net assets		14,476,010	13,740,260
Equity			
Issued capital	16	100,000	100,000
Retained earnings	17	14,376,010	13,640,260
Total equity		14,476,010	13,740,260

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity
For the year ended 30 June 2008

	Notes	30 June 2008 \$	30 June 2007 \$
Total equity at the beginning of the year		<u>13,740,260</u>	12,635,793
Profit for the year		2,985,750	3,354,467
Transactions with equity holders in their capacity as equity holders:			
Dividends provided for or paid	18	(2,250,000)	(2,250,000)
Total equity at the end of the year		<u>14,476,010</u>	<u>13,740,260</u>
Total recognised income and expense for the year is attributable to:			
Members of Provident Capital Limited		<u>2,985,750</u>	3,354,467
Total recognised income and expense for the year		<u>2,985,750</u>	<u>3,354,467</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Cash flow statement

For the year ended 30 June 2008

	Notes	30 June 2008	30 June 2007
		\$	\$
Cash flows from operating activities			
Interest received		26,736,244	29,548,633
Other fees received		1,245,212	1,035,735
Finance costs		(18,940,668)	(17,542,020)
Payments to suppliers and employees		(6,499,088)	(6,950,569)
Income taxes paid		(1,511,811)	(2,733,476)
Net cash provided by operating activities	5	1,029,889	3,358,303
Cash flows from investing activities			
Purchase of property, plant and equipment		(618,267)	(137,836)
Payment for loan advances		(149,985,124)	(126,253,627)
Repayment of loan advances		167,415,034	100,689,892
Issue of promissory notes		(14,100,000)	(46,263,282)
Repayment of promissory notes		18,100,000	49,563,282
Net cash provided by (used in) investing activities		20,811,643	(22,401,571)
Cash flows from financing activities			
Dividends paid		(2,250,000)	(2,250,000)
Funds held in trust		17,546	(33,507)
Proceeds from issues of debentures		12,709,032	37,289,501
Proceeds from wholesale funding facility		54,515,903	-
Repayment of debentures redeemed		(66,811,579)	(50,865,258)
Net cash (used in) financing activities		(1,819,098)	(15,859,264)
Net increase/(decrease) in cash held		20,022,434	(34,902,532)
Cash at the beginning of the reporting period		4,305,675	39,208,207
Cash at the end of the reporting period	7	24,328,109	4,305,675

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements
30 June 2008

Note 1 ~ Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation of the year end financial report

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board, and the *Corporations Act 2001*.

Compliance with IFRS

Compliance with Australian Accounting Standards ensures that the financial statements and notes of Provident Capital Limited comply with International Financial Reporting Standards (IFRS).

Historical cost convention

These financial statements have been prepared under the historical cost convention, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities

Critical Accounting Estimates

The preparation of financial statements requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The notes to the financial statements set out areas involving a level of judgement on areas where assumptions may impact the financial statements of the Company such as:

- Ability to realise deferred tax assets (Note 1c)
- Effective interest rate (Note 1b)
- Impairment of assets (Note 1f and 1i)

(b) Revenue recognition

(i) Interest income

Interest income is recognised in the income statement using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the income over the relevant period.

(ii) Fee income

Fee income and direct costs relating to loan origination are deferred and amortised to interest income over the life of the loan using the effective interest rate method. Fees relating to specific transactions and events not anticipated at the commencement of the loan are recognised in income in the period they are received.

All revenue is stated net of goods and services tax (GST).

(c) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income. The expense is based on the income tax rate adjusted by changes in deferred tax assets and liabilities. These changes in deferred taxes are attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

(d) Financial liabilities

Debentures are carried at cost. Interest is accrued over the period it becomes due and is recorded as part of creditors and other liabilities.

(e) Cash and cash equivalents

For purposes of the cash flow statement, cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of change in value, net of any outstanding bank overdrafts.

(f) Loans and advances held at amortised cost

Loans and advances are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They are initially recognised at fair value and subsequently valued at amortised cost using the effective interest method.

The Company assesses at each reporting date whether there is objective evidence that a loan is impaired. A loan is impaired and impairment losses are recognised if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan (a “loss event”) and that event has had an impact on the estimated future cash flows of the loan that can be reliably measured.

Individual provisions for impairment are recognised to reduce the carrying amount of loans and advances to their estimated recoverable amounts.

(g) Employee entitlements

Provision is made for the Company’s liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured on an accrual basis for all employees with years of employment greater than five years.

(h) Goods and services tax (GST)

The Company is a financial institution and as such, GST incurred for goods and services acquired is not recoverable. As GST is generally not recoverable, it has been recognised as part of the acquisition of the assets and expenses to which it relates.

(i) Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation. Depreciation is calculated on a straight line basis to write off the net cost of each item of property, plant and equipment over its expected useful life to the Company. The expected useful lives are as follows:

Computer equipment	2.5 years
Fixtures and Fittings	4 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount, being the higher of the asset's fair value less costs to sell and value in use.

(j) Provisions

Provisions are recognised when the Company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(k) Contributed equity

Ordinary shares are classified as equity.

(l) New accounting standards and Australian accounting interpretations

Interpretations and amendments to published standards effective in 2007 / 2008

The following amendments and interpretations to standards are mandatory for the Company's accounting periods beginning on or after 1 July 2007:

- i) Changes with impact
- AASB 7 "Financial Instruments: Disclosures"
 - AASB 101 "Presentation of Financial Statements"
 - AASB 2005-10 "Amendments to Australian Accounting Standards"

Additional disclosures and presentation changes have been made in this year's report to address the requirements of these standards, including disclosures of risk exposures and management, and capital management.

- ii) Changes without impact
- AASB 2007-4 "Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments and Erratum: Proportionate Consolidation"
 - AASB 2007-5 "Amendments to Australian Accounting Standard – Inventories Held for Distribution by Not-for-Profit Entities"
 - AASB 2007-7 "Amendments to Australian Accounting Standards"
 - Interpretation 10 "Interim Financial Reporting and Impairment"
 - Interpretation 11 "AASB 2 – Group and Treasury Share Transactions"
 - AASB 2007-1 "Amendments to Australian Accounting Standards arising from AASB Interpretation 11"

The Company has assessed these changes and concluded that they are not relevant or material to the Company.

(m) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight line basis over the life of the lease term.

(n) Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity is no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Classification and Subsequent Measurement

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

(iii) Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

Financial Guarantees

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB

118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

(o) Impairment of assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Note 2 ~ Segment information

The Company operates in the financial services industry in Australia only.

Note 3 ~ Financial Risk Management

(a) Risk Management

The Company has developed a risk management culture and awareness across all activities. At the highest level, it has established a Risk Management Committee whose objective is to identify and assess all types of risk and to implement risk mitigation procedures where applicable. The Risk Management Committee is represented by senior members of the management team, and reports to the Audit Committee.

The Company's core business is fixed rate mortgage lending and the issuing of fixed rate debentures. In addition, the Company is funded by floating rate bank debt. The Company is exposed to the following primary risks from the financial instruments it holds:

- Credit;
- Market (interest rate);
- Liquidity.

Secondary risks focus on business impact and are typically referred to collectively as operational risk.

These comprise:

- IT Systems;
- Fraud;
- Staff / recruitment;
- Data capture and processing;
- Third party performance;
- Regulatory.

(b) Primary risks

(i) Credit risk

Credit risk is the risk that a counterparty will fail to perform its contractual obligations, either in part or whole, under the loan and mortgage documents, and that the proceeds available from the sale of the property mortgaged to the Company as security for the loan are less than the amount owed under the loan.

The primary controls used to mitigate credit risks are described in the Company's credit policy (which is annually reviewed and approved by the board). These include:

- Lending on 1st registered mortgages;
- Additional security such as corporate and personal guarantees, second mortgage, company charge, etc (none of which is counted in the loan to valuation ratio calculation);
- Use of appropriate loan to valuation (LVR) ratios. The maximum LVR allowed ranges from 70% to 85%, depending on the type of underlying security;
- Valuations instructed by the Company to Company accredited valuers only. There are precise guidelines on the content of the valuation. No single valuer is instructed for more than one third of all valuations requested;
- Dual sign off of all loan approvals by senior management is required;
- At present the Company's policy is to limit construction and development loans to a maximum of 10% of the total loan portfolio. As at 30 September 2008 the Company is not offering construction and development loans;
- Diversification of the loan portfolio across multiple security sectors (residential, commercial, industrial, rural) and geographically;
- Loans to related parties are not part of the Company's business strategy (although the Company has one loan of \$3.6m to Provident Cashflow Limited, described elsewhere in this financial report).

Whilst the Company's loan default levels are higher than traditional lenders (historically at 20% to 30% of the loan portfolio), the Company's credit losses have been historically low, at less than 0.1% of all loans issued. This has been achieved through a proactive management of the arrears loans, coupled with prudent credit policies.

Impaired loans that have been renegotiated are reassessed under the Company's usual credit criteria, including a new valuation. No loan is renegotiated if it cannot meet the standard credit criteria.

Net fair value of financial assets and liabilities

The carrying value of cash and cash equivalents and non-interest bearing financial assets and liabilities approximate their net fair value.

As the majority of loans and debentures have remaining terms less than one year, and none have terms exceeding five years, their carrying value is a reasonable estimate of their net fair value.

Maturity analysis of loans and advances

	2008	2007
	\$	\$
Not longer than 3 months	100,946,209	108,028,952
Longer than 3 and not longer than 12 months	76,559,128	88,687,401
Longer than 1 and not longer than 5 years	15,315,257	19,534,263
Longer than 5 years	-	-
	192,820,594	216,250,616

Analysis of past due loans

Past due category	Total outstanding balance	Total outstanding balance
-------------------	---------------------------	---------------------------

	30 June 2008		30 June 2007	
	\$	Number	\$	Number
30 to 60 days	526,485	(1)	17,605,986	(8)
61 to 90 days	17,489,163	(7)	26,529,832	(9)
Greater than 90 days	52,817,247	(36)	40,997,519	(20)
Total	70,832,895	(44)	85,133,337	(37)

The recovery status at the date of this report of the balance of past due loans greater than 90 days is:

Discharged with full recovery of principal and interest	3,024,532
Mortgaged property sold and awaiting settlement	4,733,123
Mortgaged property being sold by the borrower	6,453,216
Mortgaged property in possession of the Company pending sale	28,316,087
Legal proceedings commenced for possession of mortgaged property	2,899,724
Negotiations for repayment in progress	7,390,565
Total	\$52,817,247

The Company has applied a sensitivity analysis on the impact on the Company's equity of loan default rates and property price reductions. The Company commissioned the model from external consultants. Assumptions around loan default levels and property price movements are applied to key loan data for the whole portfolio and theoretical losses are computed. The output from this model is shown below as a summary of property price reduction vs. level of default, where the resulting loss is equal to \$14.4m (approximating the net equity of the Company as at 30 June 2008):

Property price reduction	35%	40%	45%
Loan default level	60%	42%	32%
Estimated resulting loss	\$14.4m	\$14.4m	\$14.4m

Assumptions used in this model are:

- Zero property price growth since last valuation
- Recovery costs of 5% of principal are included
- Default rates and price reductions are applied across the portfolio as a whole. Therefore the model does not account for specific post code or sector impact

Other loan portfolio information

The principal amounts of the five largest loans and their percentage of the total loans and advances	30-Jun-08		30-Jun-07	
	\$		\$	
	5,090,413	2.7%	5,700,000	2.7%
	5,615,312	3.0%	6,099,450	2.9%
	5,644,461	3.0%	7,993,707	3.8%
	6,900,000	3.6%	8,519,619	4.0%
	13,500,429	7.1%	12,026,966	5.7%
	36,750,616	19.4%	40,339,743	19.0%

The sector spread of the whole loan portfolio is shown below:

As at 30 June 2008	Residential	Commercial	Rural	Construction	Total
No of loans per security type	109	25	21	2	157
Value of loans (\$million)	128.3	11.8	39.2	13.5	192.8

The geographic spread of the whole loan portfolio is shown below:

As at 30 June 2008	NSW	QLD	ACT	VIC	SA	WA	Total
No of loans per state	93	43	1	5	10	5	157
Value of loans (\$million)	122.9	54.7	0.7	2.3	7.1	5.1	192.8

The credit risk on financial assets of the Company, being primarily the loans and advances, is generally the carrying amount.

Industry classification of loans and advances:

	2008	2007
	\$	\$
Commercial	11,814,003	43,584,344
Construction	13,502,377	13,983,507
Residential (excluding rural residential)	128,259,057	129,174,002
Rural (including rural residential)	39,245,157	29,508,762
Total	<u>192,820,594</u>	<u>216,250,615</u>

(ii) Capital management

Management controls the capital of the Company in order to maintain an appropriate debt to equity ratio, provide the shareholder with adequate returns and ensure that the Company can fund its operations and continue as a going concern. The Company's debt and capital includes ordinary share capital and financial liabilities supported by financial assets. There are no externally imposed capital requirements. Management effectively manages the Company's capital by assessing the Company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholder and share issues. There have been no changes in the strategy adopted by management to control the capital of the Company since the prior year and the Company's gearing ratio remains between 93% and 94%. The gearing ratios for the year ended 30 June 2008 and 30 June 2007 are as follows:

	Note	2008	2007
		\$	\$
Total borrowings	15	216,667,198	208,925,120
Less cash and cash equivalents	7	24,328,109	4,305,675
Net debt		192,339,089	204,619,445
Total equity	16,17	14,476,010	13,740,260
Total capital		<u>206,815,099</u>	<u>218,359,705</u>
Gearing ratio		93%	94%

(iii) Market risk (Interest rate risk)

All loans and funding are denominated in Australian dollars and no derivatives are used. Therefore the primary market risk is due to interest rate movements. Each loan in the loan portfolio is contracted at a fixed rate and has an overall weighted average remaining term of 172 days. This portfolio is funded by a mixture of fixed rate debentures, with a weighted average remaining term of 406 days and floating rate wholesale funding.

The analysis below considers an instantaneous shift in market interest rates (of 1%) applied to the remaining term of the main assets and liabilities. The analysis also assumes any shift in rates is passed on through pricing adjustments to new fixed rate loans and new debentures. Historically this relationship has been validated with the interest margin remaining reasonably stable over the last financial year, despite four official rate increases.

Impact to annual profit from a 1% move in interest rates

Change in annual profit from	Annual profit variance
Increase in interest rates of 1%	Less than \$100,000
Decrease in interest rates of 1%	Less than (\$100,000)

The Company's exposure to interest rate risk and the effective weighted average interest rate by maturity periods for each set of financial assets and liabilities is set out in the following table.

30 June 2008	Note	Floating interest rate \$	Fixed interest maturing in:		Non interest bearing \$	Total \$
			1 year or less \$	1 – 5 years \$		
Financial assets						
Loans and advances	8	-	177,505,337	15,315,257	-	192,820,594
Cash and deposits	7	24,328,109	-	-	-	24,328,109
Commercial bills		-	2,124,764	-	-	2,124,764
Interest receivable	9	-	-	-	8,065,360	8,065,360
Total financial assets		24,328,109	179,630,101	15,315,257	8,065,360	227,338,827
Average interest rate		6.31%	12.05%	13.23%	-	11.09%
Financial liabilities						
Debentures	15	-	98,004,615	56,817,958	-	154,822,573
Wholesale funding facility	15	-	54,569,674	7,446,229	-	62,015,903
Other financial liabilities	13	-	-	-	8,236,928	8,236,928
Total financial liabilities		-	152,574,289	64,264,187	8,236,928	225,075,404
Average interest rate		-	8.50%	8.89%	-	8.30%
Net financial assets/(liabilities)		24,328,109	27,055,812	(48,948,930)	(171,568)	2,263,423

30 June 2007	Note	Floating interest rate \$	Fixed interest maturing in:		Non interest bearing \$	Total \$
			1 year or less \$	1 – 5 years \$		
Financial assets						
Loans and advances	8	-	196,716,353	19,534,263	-	216,250,616
Cash and deposits	7	4,305,675	-	-	-	4,305,675
Commercial bills		-	1,633,173	-	-	1,633,173
Interest receivable	9	-	-	-	7,245,878	7,245,878
Total financial assets		4,305,675	198,349,526	19,534,263	7,245,878	229,435,342
Average interest rate		6.04%	12.83%	12.04%	-	12.23%
			1 year or less \$	1 – 5 years \$		
Debentures	15	-	137,619,490	71,305,630	-	208,925,120
Other financial liabilities	13	-	-	-	8,774,946	8,774,946
Total financial liabilities		-	137,619,490	71,305,630	8,774,946	217,700,066
Average interest rate		-	8.04%	8.62%	-	7.91%
Net financial assets/(liabilities)		4,305,675	60,730,036	(51,771,367)	(1,529,068)	11,735,276

The Company may redeem debentures on issue at any time, after giving 3 months notice.

(iv) Liquidity risk

The Company follows prudent liquidity risk management through maintaining sufficient cash resources and/or financing facilities to ensure it can meet its debts when they fall due. The Company also ensures that sufficient cash and credit facilities are maintained to fund committed drawdowns on existing loans and advances and settlement of new loan receivables.

Liquidity risk is the risk of not having sufficient funds to honour contractual payments. The primary control for managing liquidity is through ensuring a balanced maturity profile. Historically the Company's funding maturity profile has been longer than the loan maturity profile (see notes 3(b)(i) and 15)

The Company seeks to reduce its liquidity risk through the use of diversified funding sources. Currently these sources are retail debentures and a wholesale funding line with an Australian bank.

The Company prepares daily cash needs projections and rolling three month projections. The material assumptions underlying these projections include analysis of recent actual debenture and loan movements, expected funding source required and consideration of budget projections. The projections also assume that the Company does not receive new debenture funds, as required by the ASIC benchmarks, even though the Company expects to receive such funds. These projections enable the Company to ensure that at all times it has on hand cash or cash equivalents sufficient to meet the Company's cash needs over any particular three month period. At 30 June 2008, the cash on hand balance was \$24,328,109.

(c) Secondary risks

Secondary risks are not able to be quantified, however for each risk identified below, a mitigation policy is explained.

(i) Systems

IT systems risk relates to reliability of the software and hardware. The Company deploys real time data replication to a dedicated back up site. This site is situated 30 kms from the Sydney CBD, thereby minimising risk of grid failure. The back up data centre is independently managed and has all usual business continuity provisions. Testing is carried out annually.

The core operating software for the Company is also externally supplied, thereby reducing reliance on internally developed systems with consequent knowledge concentration. The software is used by a number of major Australian financial firms, including a bank.

Internal daily back ups are carried out of all the Company's data and the back up tapes are stored off site. Passwords have minimum characters and are required to be changed at regular intervals.

(ii) Fraud risk

The primary controls applied to mitigate fraud include:

- dual control sign off for key procedures;
- application of the principle of separation of duty, where possible;
- all loan transaction parties are independently identified as required by the Company's Anti-Money Laundering and Counter-Terrorism policy;
- all primary security mortgages are registered promptly following settlement;
- loan payees must be consistent with the loan purpose, loan details and title history;
- payments to debenture holders are direct to an Australian bank account or by cheque payable to the debenture holder; third party payments are not permitted;
- changes to debenture holder information must be appropriately verified by the debenture holder(s) signatures;
- internal audit.

(iii) Staff / recruitment risk

Appropriate recruitment processes are employed including mandatory reference checks, dual interviews and, for key staff, police reports.

(iv) Data capture / processing risk

All key stages in processing transactions require dual sign off. Cash payment authorizations are limited to key staff and reconciliations are carried out by another team.

(v) Third party performance

All parties providing critical services to the Company are required to carry professional indemnity insurance. Work carried out is under clear and standard instructions from the Company.

(vi) Regulatory

The Company has developed a regulatory compliance programme against which performance is monitored. All staff undergo compliance training. There is a clearly defined process for monitoring, handling, recording and reporting complaints and breaches.

Note 4 ~ Operating Income

	2008	2007
	\$	\$
Interest income		
Interest income on loans	27,618,809	25,912,254
Interest income from financial institutions	1,177,213	1,674,877
Other interest income	212,559	562,000
Total interest income	29,008,581	28,149,131

	2008	2007
	\$	\$
Interest expense		
Interest paid on debentures	14,975,225	17,817,227
Interest paid on wholesale funding facility	2,653,360	-
Total interest expense	<u>17,628,585</u>	<u>17,817,227</u>
Net interest income	<u>11,379,996</u>	<u>10,331,904</u>
Non interest income		
Early redemption fees	14,350	54,958
Project risk fees	30,000	100,000
Early discharge fees	566,828	430,957
Establishment fees	734,057	449,820
Miscellaneous income	362,833	-
Impairment losses recovered	-	1,000,000
	<u>1,708,068</u>	<u>2,035,735</u>
Net operating income	<u>13,088,064</u>	<u>12,367,639</u>

Note 5 ~ Reconciliation of net profit after income tax to net cash inflow from operating activities

	2008	2007
	\$	\$
Operating profit after income tax	2,985,750	3,354,467
Non-cash flows in profit		
Depreciation	228,084	118,822
Impairment losses recovered	-	(1,000,000)
Impairment losses	1,531,383	-
Changes in assets and liabilities		
(Increase)/decrease in interest receivable	(883,964)	375,015
(Increase) in interest received in advance	(745,680)	620,587
(Increase) in other assets	(984,386)	(245,267)
(Increase) in AIFRS effective interest fee adjustment	(503,910)	695,790
(Increase) in Prepayments	(41,735)	(47,032)
(Decrease)Increase in interest payable	(1,218,756)	275,208
Increase in accounts payable	727,048	498,898
(Increase) in provision for income tax payable	(69,666)	(1,179,829)
Decrease in Deferred Income Tax Liability	5,720	(108,356)
Net cash inflow from operating activities	<u>1,029,889</u>	<u>3,358,303</u>

Note 6 ~ Income tax

(a) Income tax expense

	2008	2007
	\$	\$
The components of income tax expense comprise:		
Current tax	1,285,029	1,552,887
Deferred tax	5,720	(108,356)
Under provided in prior years	4,819	760
	1,295,568	1,445,291

Deferred income tax / (revenue) expense included in income tax expense comprise:

Decrease / (increase) in deferred tax assets	5,720	(108,356)
	5,720	(108,356)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2008	2007
	\$	\$
Profit from continuing operations before income tax expense	4,281,316	4,799,758
Tax at the Australian tax rate of 30% (2007: 30%)	1,284,395	1,439,927
Tax effect of non-deductible items	6,354	4,604
Under provision in prior years	4,819	760
Income tax expense	1,295,568	1,445,291
The applicable weighted average effective tax rates are	30.26%	30.11%

(c) Deferred tax assets

	2008	2007
	\$	\$
The balance comprises temporary differences attributable to:		
Interest received in advance	400,035	623,739
Provision for doubtful debts	262,500	-
Deferred commission expense	(44,916)	(32,600)
Deferred fees	374,647	419,329
Other provisions	84,849	72,367
	1,077,115	1,082,835

Note 7 ~ Cash and cash equivalents

	2008	2007
	\$	\$
Cash at bank and on hand	24,328,109	4,305,675

Note 8 ~ Loans and advances

	2008	2007
	\$	\$
Loans and advances - current	177,505,337	196,716,353
Loans and advances – non-current	15,315,257	19,534,263
Net loans and advances	192,820,594	216,250,616

Impairment losses

	2008	2007
	\$	\$
Recognised losses	656,383	302,373
Individually assessed impairment	875,000	-
	1,531,383	302,373

Note 9 ~ Interest receivable

	2008	2007
	\$	\$
Loan interest receivable	7,949,366	7,229,331
Deposit interest receivable	115,994	16,547
	8,065,360	7,245,878

Note 10 ~ Other Financial Assets

	2008	2007
	\$	\$
Deferred Commission Expense	149,721	127,811
Other loan related receivables	2,045,122	-
	2,194,843	127,811

Note 11 ~ Other Assets

	2008	2007
	\$	\$
Prepayments	167,967	126,233
Receivable from related party	24,862	162,142
Other Debtors pre settlement costs	48,355	-
Deferred Establishment fees	313,916	-
	555,100	288,375

Note 12 ~ Property, plant and equipment

	2008	2007
	\$	\$
Computer Equipment		
At cost	1,055,390	447,278
Less: Accumulated depreciation	475,411	284,036
Total Computer Equipment	579,979	163,242

	2008	2007
	\$	\$
Fixtures and Fittings		
At cost	390,120	379,964
Less: Accumulated depreciation	331,005	294,296
Total Fixtures and Fittings	59,115	85,668
Total Property, plant and equipment	639,094	248,910

A reconciliation of the carrying amount of property, plant and equipment at the beginning and end of the financial year is set out below.

	Computer Equipment \$	Fixtures and Fittings \$	Total \$
2008			
Carrying amount at start of year	163,242	85,668	248,910
Additions	608,112	10,156	618,268
Depreciation expense	(191,375)	(36,709)	(228,084)
Carrying amount at end of year	579,979	59,115	639,094
	Computer Equipment \$	Fixtures and Fittings \$	Total \$
2007			
Carrying amount at start of year	137,572	92,323	229,895
Additions	112,354	25,482	137,836
Depreciation expense	(86,684)	(32,137)	(118,821)
Carrying amount at end of year	163,242	85,668	248,910

Note 13 ~ Creditors and other payables

	2008	2007
	\$	\$
Interest payable	4,646,390	5,865,146
Interest received in advance	1,431,060	2,079,129
Funds held in trust*	214,506	114,000
Other creditors and accruals	1,944,972	716,673
Total creditors and other liabilities	8,236,928	8,774,948

*All debenture application money is held in trust until such time as debenture certificates are issued.

Note 14 ~ Provisions

	2008	2007
	\$	\$
Employee Entitlements	206,850	136,262
Auditor & Trustee Fees	75,981	68,505
	282,831	204,767

Employee entitlements are separately disclosed at Note 20.

Movements in the provision for the auditor and trustee fees during the financial year are:	2008	2007
	\$	\$
Carrying amount at start of year	68,505	79,030
Additions	191,759	134,400
Payments	(184,283)	(144,925)
Carrying amount at end of year	75,981	68,505

Note 15 ~ Financial liabilities

Financial liabilities include the wholesale funding facility with an Australian bank drawn upon by the Company (up to a limit of \$100 million) as well as Debenture holder funds raised through the Company prospectus. The wholesale funding is a floating interest rate facility, whereas the Debentures are issued at fixed interest rates.

	2008	2007
	\$	\$
Wholesale funding facility – Current	54,569,675	-
Debenture funding – Current	98,004,615	137,619,490
Total	152,574,290	137,619,490
Wholesale funding facility – Non-current	7,446,229	-
Debenture funding – Non-current	56,817,958	71,305,630
Total	64,264,187	71,305,630
	216,838,477	208,925,120

Debentures are for fixed interest rates between 6.00% and 10.00% (2007: 6.00% and 10.00%) with interest being paid either periodically or upon maturity of the debenture. The security for debenture holders is a registered charge over the assets of the Company.

Maturity analysis of debentures:	2008	2007
	\$	\$
Not longer than 3 months	30,017,474	46,614,890
Longer than 3 and not longer than 12 months	67,987,141	91,004,600
Longer than 1 and not longer than 5 years	56,817,958	71,305,630
Longer than 5 years	-	-
	154,822,573	208,925,120

Maturity analysis of wholesale funding facility:	2008	2007
	\$	\$
Not longer than 3 months	16,635,968	-
Longer than 3 and not longer than 12 months	37,933,707	-
Longer than 1 and not longer than 5 years	7,446,229	-
Longer than 5 years	-	-
	62,015,904	-

Note 16 ~ Issued capital

	2008	2007
	\$	\$
Issued and paid up capital		
100,000 ordinary shares of one dollar each fully paid	100,000	100,000
Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. Each ordinary share is entitled to one vote when a poll is called.		

Note 17 ~ Retained profits and earnings per share

	2008	2007
	\$	\$
Retained profits at the beginning of the financial year	13,640,260	12,535,793
Net profit for the year attributable to members of Provident Capital Limited	2,985,750	3,354,467
Dividends provided for or paid (note 18)	(2,250,000)	(2,250,000)
Retained profits at the end of the financial year	14,376,010	13,640,260
Earnings used to calculate basic EPS from continuing operations	2,985,750	3,354,467
Weighted average number of shares outstanding during the year used in calculating basic EPS	100,000	100,000
EPS from continuing operations	29.86	33.54

Note 18 ~ Dividends

	2008	2007
	\$	\$
Date declared (all fully franked)		
20 December 2006 \$10.00 per share	-	1,000,000
21 February 2007 \$12.50 per share	-	1,250,000
30 June 2008 \$22.50 per share	2,250,000	-
	2,250,000	2,250,000

	2008	2007
	\$	\$
Franking credit balance as at the end of the financial year at 30% (2007: 30%)	7,375,130	7,049,567

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for franking credits that:

- a) will arise from the payment of the current tax liability
- b) will arise from the payment of dividends recognised as a liability at the reporting date
- c) will arise from the receipt of dividends recognised as receivable at the reporting date, and
- d) may be prevented from being distributed in subsequent financial years.

Note 19 ~ Remuneration of auditors

	2008	2007
	\$	\$
Remuneration of the auditor of the Company for:		
Audit and review of the financial reports and other audit work under the <i>Corporations Act 2001</i>	115,000	118,635
Other services	4,987	-
Total Remuneration	119,987	118,635

Note 20 ~ Employee entitlements

	2008	2007
	\$	\$
Employee entitlement liabilities		
Provision for employee entitlements		
Bonus	55,000	30,505
Annual Leave	110,350	73,567
Long Service Leave	41,500	32,190
Aggregate employee entitlement liability	206,850	136,262

	2008	2007
Employee numbers	39	38

Note 21 ~ Director and executive disclosures including key management personnel

Directors

The following persons were directors of the Company during the financial year:

Executive directors

Michael R O'Sullivan - Chairman and Managing Director

Malcolm P Bersten - Legal Counsel

Non-executive director

Trevor J Seymour

Key management personnel

The key management personnel of the Company are the directors. Details of the remuneration received by the key management personnel during the year are set out below.

Remuneration of directors

Fees and payments to executive and non-executive directors reflect the demands which are made on, and the responsibilities of, the directors.

Details of remuneration

Details of the remuneration of each director of the Company are set out in the following table.

2008		Michael R O'Sullivan	Trevor J Seymour	Malcolm P Bersten	Total
		\$	\$	\$	\$
Primary	Cash salary	180,000	30,000	229,571	439,571
	Cash bonus	-	-	-	-
	Non-monetary benefits	-	-	-	-
Post-employment	Superannuation	16,200	2,700	13,129	32,029
	Retirement benefits	-	-	-	-
Equity	Options	-	-	-	-
	Total	196,200	32,700	242,700	471,600

2007		Michael R O'Sullivan	Trevor J Seymour	Malcolm P Bersten	Total
		\$	\$	\$	\$
Primary	Cash salary	180,000	30,000	30,000	240,000
	Cash bonus	-	-	-	-
	Non-monetary benefits	-	-	-	-
Post-employment	Superannuation	16,200	2,700	2,700	21,600
	Retirement benefits	-	-	-	-
Equity	Options	-	-	-	-
	Total	196,200	32,700	32,700	261,600

Shareholding:

2008

2007

	\$	\$
Ordinary shares held by directors or entities controlled by the directors	<u>100,000</u>	<u>100,000</u>

Note 22 ~ Related parties

Directors:

The directors during the financial year were: Michael R O’Sullivan, Trevor J Seymour and Malcolm P Bersten.

Transactions with directors and director related entities:

Michael R O’Sullivan is a director and the sole shareholder of Provident Asset Management Pty Limited which, as trustee of the O’Sullivan Trust and Provident Trust, holds all 100,000 ordinary shares in Provident Capital Limited. Trevor J Seymour and Malcolm P Bersten are also directors of Provident Asset Management Pty Limited.

The directors and their director-related entities (including spouses and relatives of directors and spouses) invested in the Company’s debentures during the year. The total amount of these investments outstanding at 30 June 2008 was \$1,436,136 (30 June 2007: \$1,353,803). The interest paid on these debentures during the year or payable at year end amounted to \$144,409 (30 June 2007: \$138,464). These investments were transacted on normal commercial terms and conditions.

Except for the loan to Provident Cashflow Limited (formerly known as Provident Inventory Finance Limited) described below, the Company did not make or have any loans to any director or any director related entity during the year. Loans to directors or director related entities are not part of the Company’s business strategy and the Company does not anticipate making any such loans during the year ending 30 June 2009.

During the year the Company paid Bersten Pain Pty Limited, a solicitor corporation of which Malcolm P Bersten is the sole solicitor director, \$72,903 for legal services provided during the preceding year (2007: \$88,954 for services during that year).

Trevor J Seymour, is a partner in the firm brentnallsnsw, Chartered Accountants. During the year brentnallsnsw provided accounting and taxation services to the Company on normal terms and conditions. The Company paid \$40,205 (2007: \$86,948) for these services

Provident Cashflow Limited

The Company has lent \$3.6 million to Provident Cashflow Limited (“Provident Cashflow”), an entity substantially owned by interests associated with the three directors, until 30 November 2008 on commercial terms with interest payable at commercial rates monthly in arrears. The loan is secured by a second ranking charge over the assets of Provident Cashflow. Even though the transaction has been documented as an arm’s length transaction, there is a potential conflict of interest which may influence the action taken to enforce the transaction.

In addition, Provident Cashflow has arranged a wholesale funding facility with a third party financier. The Company has given this financier a guarantee to pay up to \$2.5 million if Provident Cashflow defaults under a specific facility obligation. This guarantee ranks after the charge held by the trustee for debenture holders of the Company.

Note 23 ~ Events occurring after reporting date

The Company will relocate to new premises at suite 1101, 1 Alfred Street, Sydney. The lease for these new premises starts on 1 October 2008 and has a term of five years. It provides for an annual rental of \$627,000 plus GST (subject to final survey), and for contributions to cleaning and outgoings of the

building. The lease provisions are those commonly found in leases of commercial office premises in Sydney. The lease is expected to be executed by the Landlord shortly before the lease start date.

No other matter or circumstance has arisen since 30 June 2008 that has significantly affected or may significantly affect the Company's operations or the result of those operations, or the Company's affairs in future financial years.

Note 24 ~ Contingencies

Contingent Matters

In previous financial reports, the Company disclosed information about a claim by a property owner for compensation for the loss of his property as a result of fraud by a person unassociated with the Company. The Company sold the property as mortgagee exercising its power of sale and had received the full proceeds of the sale. The property owner was successful in his claim against the Company. On 22 August 2008 the Company paid the claimed amount of \$700,195 plus interest.

The Company has made a claim against the Registrar General for reimbursement from the Torrens Assurance Fund of the amount claimed by the property owner. The Registrar General has not yet indicated whether or not he accepts or rejects the claim. Also, the Company has notified the solicitor who acted for the Company on the transaction that it may make a claim against the solicitor. The solicitor has notified the relevant professional indemnity insurer and a claim number has been issued. The Company is expensing legal costs associated with these claims.

Note 25 ~ Expenditure commitments

Loan advances	2008	2007
	\$	\$
Commitments in relation to loans approved but not yet advanced at the reporting date and not recognised as liabilities payable:		
Not later than one year	22,221,000	7,000,000
Later than one year	-	-
	22,221,000	7,000,000
Lease expenditure – Operating lease of premises (non-cancellable)	2008	2007
	\$	\$
Minimum lease payments – not later than one year	695,489	812,235
Minimum lease payments – later than one year and not later than five years	2,547,631	294,870
Minimum lease payments – later than five years	156,750	-
Aggregate lease expenditure contracted for at reporting date	3,399,870	1,107,105

Directors' declaration

30 June 2008

In the directors' opinion:

- (a) the financial statements and notes set out on pages 7 to 31 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Company's financial position as at 30 June 2008 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the year ended on that date; 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.

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

Michael O'Sullivan
Director

Sydney
30 September 2008



WALTERTURNBULL
your extra asset

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PROVIDENT CAPITAL LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Provident Capital Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the company at the years end.

Directors' responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ('IFRS') ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's 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 entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Level 13
321 Kent Street
SYDNEY NSW 2001
GPO Box 3608
SYDNEY NSW 2001
Tel 02 9299 4678
Fax 02 9299 3131
www.wallturn.com.au
wallturnbull@wallturn.com.au
A division of
WalterTurnbull Pty Ltd
ABN 97 099 740 879

BUSINESS ADVISORY SERVICES
ASSURANCE SERVICES
MANAGEMENT CONSULTING
FINANCIAL PLANNING
INSOLVENCY SERVICES
ACCOUNTING SOLUTIONS





WALTERTURNBULL
your extra asset

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PROVIDENT CAPITAL LIMITED (continued)

Independence

In conducting our audit, we followed the independence requirements of Australian professional ethical pronouncements and of the *Corporations Act 2001*. We have given a written Auditor's Independence Declaration to the directors of the company, a copy of which is included in the Directors' Report.

Auditor's Opinion

In our opinion the financial report of Provident Capital Limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

Don Walter
Registered Company Auditor
WalterTurnbull

Dated this 30th day of September 2008

Level 13
321 Kent Street
SYDNEY NSW 2001
GPO Box 3808
SYDNEY NSW 2001
Tel 02 9299 4676
Fax 02 9299 3131
www.walterturnbull.com.au
walterturnbull@walterturnbull.com.au
A division of
WalterTurnbull Pty Ltd
ABN 97 099 740 879

BUSINESS ADVISORY SERVICES

ASSURANCE SERVICES

MANAGEMENT CONSULTING

FINANCIAL PLANNING

INSOLVENCY SERVICES

ACCOUNTING SOLUTIONS

