Broadwater

Financial Services Limited

ABN 29 095 850 463

annual report 2011

Biggera Waters **Community Bank®** Branch

Contents

Chairman's report

For year ending 30 June 2011

The 2011 financial year for Broadwater Financial Services Limited was a very busy but challenging year with Biggera Waters **Community Bank**® Branch achieving a good result. This was overshadowed however by the cancellation of the Prospectus for Helensvale **Community Bank**® Project. Revenue for the year rose by 5% to $663,536, however the Company was required to write back $90,273 in capital raising costs at December 2010 and has absorbed another $22,443 of Helensvale costs in the six months to June 2011. The net result for the year has therefore generated a loss of $41,248 before income tax but it was pleasing to note that Biggera Waters **Community Bank**® Branch has effectively recorded a $71,468 profit for the year which is a good result in a difficult financial market. In spite of all these events the Company has also managed to maintain a sound cash position at June 2011.

Our Biggera Waters **Community Bank**® Branch had another very successful year and proved again to be one of the best branches in Bendigo Bank's **Community Bank**® branch network on the Gold Coast. The branch team continue to gain accolades for their positive attitude and friendly manner and are once again to be congratulated for this excellent performance. As reported by Mark Vigus in his report the overall footings for the branch are just short of $60 million and the result reported above is a reflection of this. The Directors congratulate Mark and his team for constantly striving to improve the business growth of the branch.

The Company is currently in the process of renewing the Franchise Agreement for Biggera Waters **Community Bank**® Branch for a further 10 years and this has been accepted by Bendigo and Adelaide Bank Limited. As part of this process the Company is currently in negotiation with the owners of the Metro Mart Shopping Centre to enter into a new lease to coincide with the Franchise Agreement. Due to the confidential nature of these negotiations the Directors are unable to report on the progress at this time but we are confident that we will achieve a successful outcome and agreement before the AGM at the end of November.

As was reported to shareholders in the Notice of Extraordinary General Meeting held in June 2011, the Directors were forced to cancel the Prospectus to raise capital for the establishment of the Helensvale **Community Bank**® Branch in late 2010, following less than satisfactory community support for the project and the Prospectus not reaching the minimum funds required to proceed with the venture. The resultant write back of capital raising costs has been noted in the attached Financial Report. On a more positive note, shareholders at the Extraordinary General Meeting referred to above, supported the Directors in proceeding to open a Sub Branch at Helensvale and that branch was officially opened on 29 September 2011. The Directors are happy to report that the initial footings of the branch are ahead of projections and we look forward to growing the branch business beyond projections in the years ahead.

Your Directors remain focused on continuing to build the business of Broadwater Financial Services Limited even after the disappointing year that we have just endured. As reported in the Financial Report and above in my report, the Company has not made a profit in 2011 and as a result the Directors have not recommended a dividend be paid in the current year. The next few years will be a consolidation phase for the Company where we will strive to build on the existing business at Biggera Waters and significantly grow the business in the Helensvale area and surrounding districts. The Directors are confident that dividends will again begin to flow to shareholders in the next three to four years. The table below summarises the dividends that have been paid to shareholders in the past five years.

Financial Year	Cents per Share	No. of Shares	Total Distribution
2006/2010	25 Cents	444,025	$111,006
2010/2011	3.75 Cents	592,038	$22,201

From a community support perspective the Company has continued to invest in the local community and this year we expended more than $24,000 in the Biggera Waters, Labrador, Arundel and Helensvale community. This money was spent across a variety of areas including local schools, aged care, sporting clubs and community businesses. During the coming years we will continue to support the local community and a Community Forum will be held in the Biggera Waters area in early 2012 and another one in the Helensvale area before June 2012. In these forums we invite community groups along with all levels of Government to attend a forum to gauge the needs of the community and how we might be able to assist.

The Board of Directors have had another challenging year with all the activities referred to above testing our resolve but at no time did we lose our commitment to achieving satisfactory and successful outcomes for the Company. Our weekly executive committee meetings have continued to work very well and the concept has been adopted by many other community banking companies across Australia. After nearly three years of valued input and commitment, Trevor Jones resigned during the year to travel around our great land for two years. We wish Trevor a safe and enjoyable journey and on his return he has indicated that he would be available to re-join the Board if a position was available. The Directors are constantly seeking to renew and add talent to the existing Board and Mark Tull, who possesses extensive corporate management experience and marketing skills, was appointed in May 2011. We have also endorsed the appointment of Jim Harris, a long time shareholder of the Company and experienced businessman over many years, to join the Board at the Annual General Meeting. As a Board we will be seeking to source suitable people in the Helensvale area to join the Company as Directors so that we can have a local involvement in the growing Helensvale area. I would like to thank our personal assistant to the Board, Mrs Maris Dirkx, for another great effort during the year. Her support to the Board and organisational skills have helped us deliver a professional image to business and local community.

Finally the Company is entering our 10th year of operation and we are planning a small celebration of this achievement in early November 2011. We wish to thank all our customers, community organisations and local business owners for their support during the year and for some a commitment over the 10 year period. I would also like to extend my gratitude, appreciation and thanks to my fellow Directors who provide their time and effort freely. The year has been a difficult one but the reward of investing in the community and receiving appreciation for effort is something special.

In closing, I again thank all shareholders for their continued support and look forward to the opportunity of guiding the Company to greater growth, profitability and community involvement with our strong team of Directors and staff.

Robert J. Knight

Chairman

Manager's report

For year ending 30 June 2011

Biggera Waters **Community Bank**® Branch has experienced another successful year and I think we can safely say that our business is in good shape given the economic climate in which we have seen and continue to see. Our branch was able to build our business and as reported in the Chairman's Report, the branch on a stand alone basis has generated a very healthy profit for the year. The branch once again was one of the best performing branches on the Gold Coast and is a testament to the commitment of our staff.

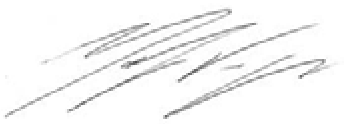
Our year in review shows that total footings have increased to $59.3 million at years end. This equates to total growth for the financial year of $1.76 million in deposits and total lending growth at $634,000. Deposit monies were very competitive throughout the financial year and we saw a decline in lending throughout all financial institutions on the Gold Coast. We continue to invest in the local community including local schools, community groups and sporting clubs, for example,and this lifts the profile of the branch which in turn generates a flow-on effect of banking business back to the branch. We will continue to proactively seek further relationships in the wider community to increase this profile.

In November 2010 we welcomed a new staff member to our team, Tammy Furnell, who has been employed as a full time Customer Service Officer. Tammy has previously worked for other financial institutions and her experience has helped to boost our staffing talent. Our existing staff have not changed with Marissa Ucchino as our Customer Service Supervisor together with our existing three Customer Service Officers Caren Hilton, Leonie Campbell and Megan Shields.

Looking forward into our next financial year we will see some very exciting initiatives with the major one being the opening of our Helensvale branch in September 2011. The achievement in opening this new branch has been a result of a long and arduous process but the Board of Directors, staff and myself are very excited about the future prospects of the branch and feel that it will be a huge success. It has been very satisfying to finally get the branch open and we look forward to a very successful venture out in the Helensvale community.

The 2012 financial year will see Biggera Waters **Community Bank**®Branch reach it's 10th year of operation in November 2011. Our branch was the second **Community Bank**® branch opened in Queensland and many of the shareholders will remember back to the excitement of those days when we first opened. We are planning a small celebration of this achievement in November.

I would once again like to personally thank my staff, our shareholders, customers and Board of Directors for your continued support and I look forward to another exciting year ahead, growing our business and servicing our community.



Mark Vigus

Branch 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

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:

Robert J Knight
Chairman

Occupation: Real Estate Licensee & Business Broker

Experience and expertise:

Former Chartered Accountant

Former Financial Controller & Company Secretary

Resident of Northern Gold Coast for 29 years

Stephen M O'Donoghue
Director

Occupation: Pharmacist

Experience and expertise:

Local Pharmacist

Resident of Northern Gold Coast for 21 years

Patricia M Bowden
Director

Occupation: Business Owner & Director

Experience and expertise:

Owner Shade Sail Business and Airstrip

Aged Care & Qld Cancer Fund volunteer

Resident of Northern Gold Coast for 28 years

Mark A Tull (appointed 26 May 2011)
Director

Occupation: Business Owner & Director

Experience and expertise:

Owner Web Design Company and Internet Marketing

Chairman of Magnetic Shoals Limited and former

State Treasurer of Qld RSL

Resident of Northern Gold Coast for 15 Years

Ian L Hamilton
Secretary

Occupation: Business Manager

Experience and expertise:

Manager of Anglican Parish - Gold Coast North

Former Manager Biggera Waters Community Bank

Resident of Northern Gold Coast for 22 years

Leo S Beutel
Director

Occupation: Retired Area Manager

Experience and expertise:

Retired Area Manager Hardy Wine Company

Former Boxing Host & Announcer

Resident of Northern Gold Coast for 26 years

Trevor N Jones (resigned 27 April 2011)
Director

Occupation: Real Estate Sales Manager

Experience and expertise:

Former Finance Broker & Business Owner

Resident of Gold Coast for 25 years

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

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

Company Secretary

Ian Hamilton was appointed Company Secretary as of 30 January 2008 and his experience includes being a Business Manager and former Bank Manager.

Principal activities

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

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

Review of operations

Operations during the year were affected by the Company's decision to issue a prospectus to raise capital to open a **Community Bank®** Branch at Helensvale. Unfortunately the Prospectus was not supported to the extent that the Directors anticipated and in November the Prospectus was cancelled. The resultant capital raising costs totalling $90,273 have been brought to account in the current period as expenditure thus severely affecting the operating result for the year.

On 22 February 2011 the Company's Franchise partner Bendigo & Adelaide Bank Limited announced that commencing 1 April 2011 two income streams (Term Deposits greater than 90 days and Fixed Rate Home Loans) will have their trailing commission cut from 0.5% to 0.375%. This reduction in commission rate is expected to have a material effect on the expected revenue and profits of the Company in the 2011/2012 financial year. However the Company's current Franchise Agreement with Bendigo & Adelaide Bank Limited, which expires in November 2011, does not provide for these changes and consequently the financial effect of this change will not commence until after that date when the Company will adopt a new Franchise Agreement with the Bendigo & Adelaide Bank Limited. The Board estimates that the change will reduce income by $26,484 in a full financial year based on current budgets and it will continue to monitor budgets to ensure maximisation of returns to shareholders and the community.

The profit/(loss) after tax of the Company for the financial year was:

Year ended 30-Jun-11 $	Year ended 30-Jun-10 $
(29,473)	36,866

Dividends	Year ended 30 June 2011 Cents per share	$
Dividends paid in the year: - franked dividend	5	22,201

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 or the financial report.

Likely developments

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

Significant events after the balance date

Since the end of the financial year the Board has resolved to establish a sub-branch at Helensvale, with a scheduled opening date of 29 September 2011. This will be financed via a $100,000 loan facility, repayable over five years, a $50,000 overdraft and existing cash reserves. A sub-branch fee of $30,000 will be payable to Bendigo and Adelaide Bank Limited. The fit out of the branch premises is expected to cost approximately $150,000, with the landlord to contribute $75,000. The establishment of the sub-branch at Helensvale may affect the operations of the Company and the results of those operations or state of affairs of the Company in future years.

Since balance date, the world financial markets have shown volatility that may have an impact on investment earnings in the 2011/2012 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.

Environmental Regulation

The Company is not subject to any significant environmental regulation.

Remuneration Report

No Director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the Company, controlled entity or related body corporate with a Director, a firm which a Director is a member or an entity in which a Director has a substantial financial interest. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the Company's accounts, or the fixed salary of a full-time employee of the Company, controlled entity or related body corporate.

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 occurred by the Officer, which includes the Officer's liability for legal costs, in or arising out of the conduct of the business of the Company or in or arising out of the discharge of the Officer's duties.

Disclosure of the nature of the liability and the amount of the premium is prohibited by the confidentiality clause of the contract of insurance. The Company has not provided any insurance for an Auditor of the Company or a related body corporate.

Directors' meetings

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

Director	Board meetings #
Robert J Knight	11 (11)
Ian L Hamilton	10 (11)
Stephen M O'Donoghue	08 (11)
Leo S Beutel	10 (11)
Patricia M Bowden	05 (11)
Trevor N Jones (resigned 27 April 2011)	08 (09)
Mark A Tull (appointed 26 May 2011)	01 (02)

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

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;

(c) Weekly Executive Committee meetings to review performance and action plans; and

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

Richmond Sinnott & Delahunty

Chartered Accountants

19 September 2011

The Directors
Broadwater Financial Services Limited
PO Box 1640
RUNAWAY BAY QLD 4216

Dear Directors

Auditor's Independence Declaration

In relation to our audit of the financial report of Broadwater 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 Biggera Waters, Queensland on 19 September 2011.

Robert J Knight

Chairman

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

Financial statements

Statement of comprehensive income for the year ended 30 June 2011

	Note	2011 $	2010 $
Revenue from continuing operations	2	663,536	632,522
Employee benefit expense	3	(330,041)	(315,555)
Charitable donations and sponsorship		(24,680)	(18,065)
Depreciation and amortisation expense	3	(9,366)	(12,370)
Occupancy and associated costs		(121,603)	(93,457)
Systems costs		(24,320)	(25,759)
Other expenses		(194,774)	(113,794)
Profit/(loss) before income tax expense/(benefit)		**(41,248)**	**53,522**
Income tax expense/(benefit)	4	(11,775)	16,656
Profit/(loss) after income tax expense/(benefit)		**(29,473)**	**36,866**
Other comprehensive income		-	-
Total comprehensive income		**(29,473)**	**36,866**
Earnings per share (cents per share)			
- basic for profit for the year	21	(4.98)	8.21
- diluted for profit for the year	21	(4.98)	8.21

The accompanying notes form part of these financial statements.

Statement of financial position as at 30 June 2011

	Note	2011 $	2010 $
Current assets			
Cash and cash equivalents	5	137,054	150,878
Receivables	6	31,030	44,953
Total Current Assets		**168,084**	**195,831**
Non-Current Assets			
Property, plant and equipment	7	132,964	140,330
Deferred tax asset	4	13,744	1,969
Intangibles	8	667	2,667
Total Non-Current Assets		**147,375**	**144,966**
Total Assets		**315,459**	**340,797**
Current Liabilities			
Payables	9	15,492	9,730
Current tax liability	4	-	14,202
Provisions	10	3,539	6,779
Total Current Liabilities		**19,031**	**30,711**
Total Liabilities		**19,031**	**30,711**
Net Assets		**296,428**	**310,086**
Equity			
Share capital	11	406,858	368,842
Accumulated losses	12	(110,430)	(58,756)
Total Equity		**296,428**	**310,086**

The accompanying notes form part of these financial statements.

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		730,751	691,230
Cash payments in the course of operations		(712,978)	(634,478)
Interest received		4,806	5,439
Income tax paid		(14,202)	(12,680)
Net cash flows from operating activities	**13 (b)**	**8,377**	**49,511**
Cash Flows From Financing Activities			
Dividends paid		(22,201)	(22,201)
Payment for share issue costs		-	(26,513)
Net cash flows used in financing activities		**(22,201)**	**(48,714)**
Net increase/(decrease) in cash held		**(13,824)**	**797**
Cash and cash equivalents at start of year		150,878	150,081
Cash and cash equivalents at end of year	**13 (a)**	**137,054**	**150,878**

The accompanying notes form part of these financial statements.

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

	Note	2011 $	2010 $
Share CAPITAL			
Ordinary shares			
Balance at start of year		368,842	395,355
Issue of share capital		-	-
Share issue costs		-	(26,513)
Share issue costs transferred to expense		38,016	-
Balance at end of year		**406,858**	**368,842**
RETAINED EARNINGS/(ACCUMULATED LOSSES)			
Balance at start of year		(58,756)	(73,421)
Profit after income tax expense		(29,473)	36,866
Dividends paid or provided for	20	(22,201)	(22,201)
Balance at end of year		**(110,430)**	**(58,756)**

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

Broadwater 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 19 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 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.

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.

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	2.5 - 20%
Plant & equipment	5 - 40%

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.

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.

Notes to the financial statements continued

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

Goods and services tax (continued)

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)

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.

Loans and Borrowings

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

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 continuing operations		
Operating activities:		
- services commissions	657,806	627,725
	657,806	**627,725**
Non-operating activities:		
- interest received	5,730	4,797
	5,730	**4,797**
	663,536	**632,522**

	2011 $	2010 $

Note 3. Expenses

	2011 $	2010 $
Employee benefits expense		
- wages and salaries	258,393	242,313
- superannuation costs	23,023	21,752
- workers' compensation costs	1,408	1,159
- other costs	47,217	50,331
	330,041	**315,555**
Depreciation of non-current assets:		
- leasehold improvements	6,249	7,912
- plant & equipment	1,117	2,458
Amortisation of non-current assets:		
- intangibles	2,000	2,000
	9,366	**12,370**
Bad debts	**917**	**9,545**

The following significant expense items, included as part of other expenses, are relevant in explaining financial performance:

Costs incurred over the past three financial years as part of a proposed capital raising associated with the establishment of a second branch in Helensvale. Some of these costs were previously capitalised in the balance sheet as equity raising costs but were transferred to expenditure when the prospectus for the capital raising was cancelled. These costs were as follows:

- preparation of feasibility study	14,744	-
- preparation of prospectus	10,868	-
- legal fees	16,137	-
- advertising and marketing	12,278	-
- labour costs	14,325	-
- rent	8,600	-
- other administration expenses	13,321	-
	90,273	**-**

Note 4. Income tax expense

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

	2011 $	2010 $
Prima facie tax on profit/(loss) before income tax at 30%	(12,375)	16,056
Add/(less) tax effect of:		
- non-deductible expenses	600	600
- timing differences	(1,231)	3,171
Current income tax expense / (benefit)	(13,006)	19,827
Movement in deferred tax	1,231	(3,171)
Income tax expense/(benefit)	**(11,775)**	**16,656**
Deferred tax asset/(liability)		
- Opening Balance	1,969	(1,202)
Deferred tax on accruals	(259)	2,677
Deferred tax on provisions	(972)	494
Deferred tax on losses carried forward	13,006	-
- **Closing Balance**	**13,744**	**1,969**
Tax liabilities		
Current tax payable	**-**	**14,202**

	2011 $	2010 $

Note 5. Cash and cash equivalents

Cash at bank and on hand	38,020	46,563
Term deposit	99,034	104,315
	137,054	**150,878**

Note 6. Receivables

Trade receivables	28,115	37,923
Prepayments	2,915	7,030
	31,030	**44,953**

Note 7. Property, plant and equipment

Leasehold improvements		
At cost	168,219	168,219
Less: accumulated depreciation	(43,078)	(36,829)
Total written down amount	**125,141**	**131,390**
Plant & equipment		
At cost	33,420	33,420
Less: accumulated depreciation	(25,597)	(24,480)
Total written down amount	**7,823**	**8,940**
	132,964	**140,330**
Movements in carrying amounts		
Leasehold improvements		
Carrying amount at beginning	131,390	139,302
Additions	-	-
Less: depreciation expense	(6,249)	(7,912)
Carrying amount at end	**125,141**	**131,390**
Plant & equipment		
Carrying amount at beginning	8,940	11,398
Less: depreciation expense	(1,117)	(2,458)
Carrying amount at end	**7,823**	**8,940**
	132,964	**140,330**

	2011 $	2010 $

Note 8. Intangible assets

Franchise fee		
At cost	60,000	60,000
Less: accumulated amortisation	(59,333)	(57,333)
	667	**2,667**

Note 9. Payables

Trade creditors	11,594	6,451
Accrued expenses	3,898	3,279
	15,492	**9,730**

Note 10 Provisions

Employee provisions	**3,539**	**6,779**
Movement in employee provisions		
Opening balance	6,779	5,134
Additional provisions recognised	19,876	18,639
Amounts utilised during the year	(23,116)	(16,994)
Closing balance	**3,539**	**6,779**

Note 11. Share Capital

592,038 ordinary shares (2010: 592,038)*	444,025	444,025
Less equity raising costs (Biggera Waters)	(37,167)	(37,167)
Less equity raising costs (Helensvale)	-	(38,016)
	406,858	**368,842**

* A bonus share issue on a 1:3 basis (148,013 shares) was issued to all existing shareholders on 18 June 2010.

Notes to the financial statements continued

	2011 $	2010 $

Note 12 Accumulated Losses

Balance at the beginning of the financial year	(58,756)	(73,421)
Net profit / (loss) after income tax	(29,473)	36,866
Dividends paid or provided for	(22,201)	(22,201)
Balance at the end of the financial year	**(110,430)**	**(58,756)**

Note 13. Statement of cash flows

(a) Cash and cash equivalents		
Cash at bank and on hand	38,020	46,563
Term deposit	99,034	104,315
	137,054	**150,878**
(b) Reconciliation of profit / (loss) after tax to net cash from operating activities		
Profit/(loss) after income tax	(29,473)	36,866
Non cash items:		
- amortisation	2,000	2,000
- depreciation	7,366	10,370
- prior year share issue costs transferred to operating expense	38,016	-
Changes in assets and liabilities:		
- (increase)/decrease in receivables	13,923	1,375
- increase/(decrease) in payables	5,762	(6,721)
- increase/(decrease) in current tax payable	(14,202)	7,147
- increase/(decrease) in provisions	(3,240)	1,645
- increase/(decrease) in deferred income tax liability	-	(1,202)
- (increase)/decrease in deferred income tax asset	(11,775)	(1,969)
Net cashflows from operating activities	**8,377**	**49,511**

Note 14. Auditors' remuneration

Amounts received or due and receivable by the Auditor of the Company for:		
- Audit or review of the financial report of the Company	**3,900**	**3,900**

Note 15. Director and related party disclosures

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

Robert J Knight

Ian L Hamilton

Stephen M O'Donoghue

Leo S Beutel

Patricia M Bowden

Trevor N Jones (resigned 27 April 2011)

Mark A Tull (appointed 26 May 2011)

No Director or related entity has entered into a material contract with the Company. Other than as detailed in the Directors Report no Director's fees have been paid as the positions are held on a voluntary basis.

Directors' shareholdings	**2011**	**2010**
Robert J Knight	-	-
Ian L Hamilton	533	533
Stephen M O'Donoghue	40,000	40,000
Leo S Beutel	-	-
Patricia M Bowden	1,333	1,333
Trevor N Jones (resigned 27 April 2011)	-	-
Mark A Tull (appointed 26 May 2011)	1,333	1,333

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

Note 16. Subsequent events

Since the end of the financial year the Board has resolved to establish a sub-branch at Helensvale, with a scheduled opening date of 29 September 2011. This will be financed via a $100,000 loan facility, repayable over five years, a $50,000 overdraft and existing cash reserves. A sub-branch fee of $30,000 will be payable to Bendigo and Adelaide Bank Limited. The fit out of the branch premises is expected to cost approximately $150,000, with the landlord to contribute $75,000. The establishment of the sub-branch at Helensvale may affect the operations of the Company and the results of those operations or state of affairs of the Company in future years.

Since balance date, the world financial markets have shown volatility that may have an impact on investment earnings in the 2011/2012 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.

Notes to the financial statements continued

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 were it provides banking services to its clients. The economic entity operates in one geographic area being Biggera Waters & district, Queensland.

Note 19. Corporate information

Broadwater Financial Services Limited is a Company limited by shares incorporated in Australia.

The registered office and principal place of business is:

Registered office	Principal place of business
33 Hollywell Road Biggera Waters Queensland 4216	33 Hollywell Road Biggera Waters Queensland 4216

Notes to the financial statements continued

	2011 $	2010 $

20. Dividends paid or provided for on ordinary shares

(a) Dividends paid		
Fully franked dividend - 5 cents per share (2010: 5 cents - fully franked)	22,201	22,201
(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	26,509	21,822
- Franking credits that will arise from the payment of income tax payable as		
at the end of the financial year	-	14,202
	26,509	**36,024**

21. Earnings per share

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

Diluted earnings per share amounts are calculated by dividing profit / (loss) after income tax by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of any dilutive options or preference shares).

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

Profit / (loss) after income tax expense	**(29,473)**	**36,866**
Weighted average number of ordinary shares for basic and diluted earnings per share	**592,038**	**448,891**

	2011 $	2010 $

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 has established an Audit committee which reports regularly to the Board. The Audit committee is assisted in the area of risk management by an internal audit function.

(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 $	Carrying amount 2010 $
Cash assets	137,054	150,878
Trade receivables	28,115	37,923
	165,169	**188,801**

The Company's exposure to credit risk is limited to Australia by geographic area. The entire balance of receivables is 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.

Note 22. Financial risk management (continued)

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	15,492	(15,492)	(15,492)	-	-
	15,492	**(15,492)**	**(15,492)**	**-**	**-**
30 June 2010					
Payables	9,730	(9,730)	(9,730)	-	-
	9,730	**(9,730)**	**(9,730)**	**-**	**-**

(c) Market risk

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

Interest Rate Risk

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 $	Carrying amount 2010 $
Fixed rate instruments		
Financial assets	99,034	104,315
	99,034	**104,315**
Variable rate instruments		
Financial assets	37,805	46,348
	37,805	**46,348**

Note 22. Financial risk management (continued)

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.

(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 the Directors opinion:

(1) the financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:

(i) complying with Accounting Standards in Australia, International Financial Reporting Standards and Corporations Regulations 2001; and

(ii) giving a true and fair view of the Company's financial position as at 30 June 2011 and of its performance as represented by the results of its operations and its cash flows for the financial year ended on that date; and

(2) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board:

Robert J Knight

Chairman

Signed at Biggera Waters on 19 September 2011.

Independent audit report

Richmond Sinnott & Delahunty
Chartered Accountants

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF BROADWATER 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 Broadwater 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 established 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

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 Broadwater 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

Sinnott

W. J. SINNOTT
Partner
Bendigo

Date: 19 September 2011

Biggera Waters **Community Bank®** Branch
Metro Market Shopping Centre
33 Hollywell Road, Biggera Waters QLD 4216
Phone: (07) 5537 6725

Franchisee: Broadwater Financial Services Limited
Metro Market Shopping Centre
33 Hollywell Road, Biggera Waters QLD 4216
Phone: (07) 5537 6725
ABN: 29 095 850 463

www.bendigobank.com.au/biggera_waters
Bendigo and Adelaide Bank Limited,
The Bendigo Centre, Bendigo VIC 3550
ABN 11 068 049 178. AFSL 237879.
(KKQAR11009) (08/11)

Bendigo Bank