

July 2017

Changes to financial model

A core principle of the **Community Bank**[®] model is a 50/50 share of margin earned on core banking products. To better reflect this core principal, a new Revenue Share model was introduced from 1 July, 2016.

Bendigo and Adelaide Bank Ltd ("BEN") adopted a Funds Transfer Pricing (FTP) model for **Community Bank**[®] Revenue Share, effective 1 July 2016. BEN applies its FTP methodology to regulatory reporting, performance management and revenue share. The FTP model:

- is a method used to measure how much each account or product is contributing to overall profitability, given a current cost of marginal funding
- gives the BEN Group a better understanding of the net interest margin component of overall profitability
- assigns a FTP rate based on the repricing characteristics and behavioural duration of products

The BEN FTP revenue share sources **Community Bank**[®] product data and then applies BEN's FTP rates to calculate revenue share for each **Community Bank**[®] branch by core banking product i.e. loans and deposits. The BEN FTP revenue share is reported to each **Community Bank**[®] company on a monthly basis.

The FTP methodology is reviewed annually with changes approved by BEN's Asset & Liability Management Committee (ALMAC). BEN's Board Risk Committee approves changes to the FTP Policy. The Community Bank National Council also commissions reviews of the FTP model.

The ongoing growth of our business, continuing diversification and changes to income share applicable to all companies on the old revenue share model to ensure a 50/50 share of margin means that Balnarring & District Community Services Limited will be financially advantaged by transferring to the new Revenue Share model.

The Board has, therefore, approved a transfer from the beginning of the 2017/2018 financial year and our company will sign an Amending Deed to our Franchise Agreement to facilitate this transfer.

Be assured that your Chair and Board have a strong and positive working relationship with our partner Bendigo and Adelaide Bank and will continue to work with them to grow the business and ensure the best outcome for all.



Heather Goddard
Chair
Balnarring & District Community Services Limited