

Chairman's report

For year ending 30 June 2019

I am honoured to take over the Chairmanship of your company and the tremendous social enterprise asset, being the East Malvern **Community Bank**[®] Branch, that it operates.

As has been already communicated to shareholders, Peter Norman OAM retired from the Board as at 30 June 2019 after serving for 20 years as Chairman. Under Peter's stewardship the company completed its IPO, returning branch banking services to East Malvern on 6 May 2000 and then transforming itself into a long standing, highly successful social enterprise that now contributes to the positive wellbeing of thousands of individuals every year. This has been a remarkable achievement and Peter leaves behind a legacy that every shareholder, Board member, employee past and present can be proud to be associated with.

While a strong enduring legacy has been built, the last financial year was impacted by material one-off costs, the absence of a Branch Manager for over four months, the closure of the branch for two weeks due to flooding and the re-building of the branch team. When combined with the down turn in the housing market, extreme negative sentiment to the banking industry arising from the Hayne Royal Commission, very tough lending market, margin pressure on deposits and far greater restrictions on lending approvals, this created what is now regarded as a 'perfect storm'.

Under these conditions branch revenue fell by 8% with the decline accelerating into the second half, total lending fell by \$7.9 million or 13% including \$3.3 million transferred to other branches and \$298,000 in one-off costs were incurred. From a financial perspective this was a terrible year with the only highlight being a stand-out performance from the Investment Fund.

Financial metrics were as follows:

\$'000	2019	2018
Revenue	1,366	1,386
Operating profits before sponsorships and tax	250	629
Sponsorships and donations	331	392
Shareholder dividends (declared/paid)	110	110
Branch footings	176.4 million	183.4 million

Understanding the enduring strength of the business the Board kept sponsorships at a healthy level of \$331,000 and has chosen to maintain the level of dividends paid to shareholders.

Operating results (\$'000)	1H19	2H19	Total 2019	1H18	2H18	Total 2018
Community banking						
Branch revenue	632	581	1,213	654	663	1,317
Branch operating profit	24	58	82	264	296	560
Operating margin	4%	10%	7%	40%	45%	42%
Investment income						
Cash investment earnings	59	79	138	49	29	78
Mark-to-market adjustment	(57)	87	30	6	(15)	(9)
Operating profit before sponsorships and tax	26	224	250	319	310	629
Sponsorships			(331)			(392)
Net profit/(loss) before tax			(81)			237

Chairman's report (continued)

In 2019 the branch operating profit fell \$478,000 compared to the prior year due to significant one-off costs for terminations and retirement benefits totalling \$298,000, a \$104,000 reduction in branch revenue which flowed directly from the lower footings and a \$79,000 increase in marketing expenses. Investment earnings were \$99,000 or 143% higher compared to the prior year as a consequence of realising profits on several investments, refocusing the portfolio to higher yielding stocks and improving financial markets.

With the successful re-building of the branch team and new Board committee structures now in place, the Board is very confident of returning the financial performance of the company to what has been the norm over recent years.

Branch operations

Total branch footings decreased by \$7.0 million or 3.8% due almost entirely to the very tough environment for consumer lending, combined with the absence of a Branch Manager for four months and \$3.3 million in loans that were transferred to other branches in the Bendigo network.

Our business footings by product and total Branch revenues are as follows:

Product	2019 \$ million	2018 \$ million	2017 \$ million	2016 \$ million	2015 \$ million	2014 \$ million	2013 \$ million
Savings accounts	19.8	22.0	24.3	14.1	10.2	9.2	8.5
Term deposits/treasury	63.8	54.4	61.9	57.5	59.1	68.8	76.0
Statement accounts	29.9	35.6	35.8	34.4	30.3	21.8	19.3
Lending	55.0	62.9	60.1	58.4	44.3	41.6	41.2
Off balance sheet business	7.9	8.5	8.8	8.9	7.0	8.6	7.8
Total	176.4	183.4	190.9	173.3	150.9	150.0	152.8
Branch revenue \$'000	1,213	1,317	1,266	1,151	1,073	1,078	1,153
Branch revenue margin	0.69%	0.72%	0.66%	0.66%	0.71%	0.72%	0.75%

The company's branch revenue margin (branch revenue over business footings) declined by three basis points year on year to 0.69% due the customers moving from low yielding savings and statement accounts to the higher interest rates available in term deposits/treasury and the reduction in lending.

Community sponsorships

Despite the disruption faced this past year it is worth recognising another key milestone was passed this year with cumulative sponsorships and donations reaching \$4.3 million since the inception of the business. As you would expect the East Malvern **Community Bank**[®] Branch has retained it's position as one of the top performers of all **Community Bank**[®] branches which now number more than 324 across Australia and have collectively returned more than \$205 million in community grants, donations and sponsorships.

The company provides grants to many partner groups throughout the year and this is outlined in more detail in our expanded Sponsorship Committee report. As always there remains a strong commitment to a wide spectrum of local sport across all age groups which is underpinned by our belief in encouraging all sectors of the community to stay involved and active through their life.

Dividends

Looking through the large one-off costs and disruptions during the year, the Board has maintained the final dividend for the year taking full year dividends to 28 cents (28 cents 2018) fully franked. Dividends for the year have comprised of an interim dividend of 13 cents (13 cents 2018) and a final dividend of 15 cents per share (15 cents 2018), payable on 31 October 2019 to all shareholders as at 1 October 2019.

Chairman's report (continued)

As always the Board strives to keep the balance right between all our stakeholders including shareholders while staying true to the spirit of **Community Bank**[®] programme. Since the business started through to the current year, the cumulative returns to the community and shareholders are as follows:

Sponsorships and donations	\$4,327,000	72%
Dividends paid/payable to shareholders	\$1,251,000	21%
Retained earnings	\$ 392,000	7%
Total	\$5,970,000	100%

The cumulative returns since the branch opened in May 2000 have now reached almost \$6 million including total dividends paid/payable to shareholders which now equals 3.3 times the original capital raised.

Board of Directors

As mentioned above Peter Norman OAM retired on 30 June 2019 after 20 years of unstinting service as a Director and Chairman of the company. Building on the enduring legacy that Peter was instrumental in creating, he has accepted the ambassadorial role of Founding Chairman to assist with the transition to the new leadership team and to continue representing both East Malvern **Community Bank**[®] Branch and more broadly the **Community Bank**[®] concept across the wide network of community groups that we support.

The year was also marked by the sudden passing of one of founding Directors Cheryl Newsom. Cheryl was the driving force in the Waverley Road Traders that instigated the public meetings that ultimately led to the formation of the East Malvern **Community Bank**[®] Branch. She was a member of the original Steering Committee and then served for 17 years as a Director.

Reflecting the intense focus into compliance and governance across the financial services sector arising from the Hayne royal commission and industry regulators, the role and duties of the Board have significantly expanded to meet the requirements coming from Bendigo and Adelaide Bank Limited. I want to acknowledge the dedication and time they provide in guiding this company for the benefit of all its stakeholders. The Board comprises of:-

Stuart E. Martyn – Chairman
Philip Williamson – Deputy Chairman
Philip C. Carey
Michael Arbon
Anne Parsonson
James Hayne

I want to thank those who are currently supporting our **Community Bank**[®] branch with their banking business and look forward to that support continuing in the future.



Stuart Martyn
Chairman