

Chairman's report

For year ending 30 June 2020

In what has been an extraordinary year dominated by the global pandemic, the results of your company have held up well demonstrating the sustainability of the social enterprise to successfully operate through recession and severe economic turbulence.

The COVID-19 pandemic and resulting disruption to financial markets along with government social distancing measures did however result in significant negative impacts to the company and an acceleration of several long term trends in retail banking that we cannot ignore. In the circumstances with Revenue down 22.3% compared to the prior year it was pleasing to boost Operating profits before sponsorships and tax by \$71,000 or 28.4% and to mitigate the impact on our sponsorship programme and shareholder dividends.

Financial metrics were as follows:

| \$'000 | 2020 | 2019 | Change |
|---|---------------|---------------|------------|
| Revenue | 1,062 | 1,366 | down 22.3% |
| Operating profits before sponsorships and tax | 321 | 250 | up 28.4% |
| Sponsorships and donations | 273 | 331 | down 17.5% |
| Shareholder dividends (declared/paid) | 99 | 110 | down 10.0% |
| Branch footings | 168.8 million | 176.4 million | down 4.3% |

The previous financial year was impacted by material one-off costs totalling \$298,000 while the current year saw a \$228,000 negative turnaround in investment earnings as many companies ceased or severely curtailed dividend payments and financial markets were crunched in March. Branch Revenue in the 2H20 was boosted by \$45,000 in COVID-19 related government benefits but over the full year still fell by 7.5% due to a 4.3% fall in branch footings and further margin declines especially after the two emergency Reserve Bank of Australia (RBA) rate cuts in March. Declining margins has been a long term trend in the banking industry and was accelerated by the RBA emergency rate cuts. It is also widely anticipated that interest rates will remain at low levels for a long period of time and so our business needs to adapt to this environment.

| Operating Results (\$'000) | 1H20 | 2H20 | Total 2020 | 1H19 | 2H19 | Total 2019 |
|---|------------|------------|------------|-----------|------------|-------------|
| Community Banking | | | | | | |
| Branch revenue | 566 | 556 | 1,122 | 632 | 581 | 1,213 |
| Branch operating profit | 180 | 201 | 381 | 24 | 58 | 82 |
| Operating margin | 32% | 36% | 34% | 4% | 10% | 7% |
| Investment Income | | | | | | |
| Cash investment earnings | 50 | 10 | 60 | 59 | 79 | 138 |
| Mark-to-market adjustment | (45) | (75) | (120) | (57) | 87 | 30 |
| Operating Profit before Sponsorships and Tax | 185 | 136 | 321 | 26 | 224 | 250 |
| Sponsorships | | | (273) | | | (331) |
| Net profit/(loss) before tax | | | 48 | | | (81) |

Chairman's report (continued)

Our cash earnings from the investment portfolio declined by \$78,000 from the prior year predominantly in the 2H20 and the non cash market-to-market adjustment was negative \$120,000 as stock markets were hit by the COVID-19 crisis. Despite these circumstances the Board kept Sponsorships at a healthy level of \$273,000 which was equivalent to 25.7% of revenue.

In 2020 the branch operating profit increased by \$299,000 to \$381,000 returning to more normal levels of profitability. The prior year result was significantly impacted by one-off costs for terminations and retirement benefits totalling \$298,000. In the current year the combined impact of falling branch footings and declining margins resulted in a \$136,000 reduction in Branch Revenue which was offset by the receipt of \$45,000 in Federal Government cash boost benefits and a \$92,000 reduction in ongoing expenses principally marketing related.

What cannot be ignored is the underlying \$136,000 reduction in Branch Revenue comes on top of a \$104,000 reduction in the prior year and steady decline in branch footings over the last three years (approx 4% pa). Foot traffic through our traditional branch has also been consistently declining for many years and the median age of our customer base at 52 is well above the median age of the East Malvern local government area which is 36. These factors are all indicators that our existing premises and business model are not attracting the millennial age group which is a key customer segment that we must engage with more fully to ensure the long term sustainability of our social enterprise and the health of the Community Partner programme.

Bendigo Bank has seen these trends developing across much of its network and earlier this year announced a Network Transformation programme with many innovative elements. This has coincided with our own imperatives and timing of key lease renewal decisions. With the long term sustainability of the Branch front and centre, your Board has investigated consolidation opportunities, various alternative premises and explored the opportunities opening up with the Network Transformation programme. Key decisions have been taken to make major investments in our local community with new premises and a new format branch design that does away with the traditional banking chamber and opens up a completely new business model and experience centre. On behalf of your Board, we are extremely pleased to announce East Malvern will be one of the first to move into a future format branch located at 268 Waverley Road and this is expected to open in November this year after a significant fit-out is completed.

Network Transformation

"Across the banking industry customer behaviour is changing with the increase in online activity and self-service accelerating over recent months with COVID-19 which is impacting on the number of customers visiting branches. Although less customers are coming into the branch for transactions having a 'bricks and mortar' presence is still important for a lot of people. The Banks Future Network team has been working with Community Bank East Malvern over the past few months to develop their new physical presence. Taking learnings from the Banks recent Innovation Stores in Norwood, Leichhardt and Carlton the new space in Malvern East will be more than just a branch. We have gone through a process with the Board and staff to understand who our future high value customers will be and are implementing new Customer Experiences to attract them into the space. This includes a 'Retail Pop Up' in which we will give small retailers a chance to show and sell their wares and 'Event Space' where we will host after hours events targeted at these customers. These new Customer Experiences along with the local social media and marketing plan and some changes to staff roles in the branch are aimed at attracting new customers to Malvern East and giving us the opportunity to grow the business."

Marlow Schneider, Project Lead | Future Network – Design and Innovation
Paul Thomson, Property Design and Delivery

Chairman's report (continued)

Community sponsorships

Despite the disruption faced this past year another key milestone was passed with cumulative sponsorships and donations reaching \$4.6 million since the inception of the business.

The company provides grants to many Community Partners throughout the year and this is outlined in more detail in the Sponsorship Committee Report. This year we proactively reached out to many of our Community Partners to offer help as they coped with the fall-out from COVID-19 which has shut down sport seasons and closed many of the revenue raising opportunities that they would normally rely on. Just as is the case with our branch renewal, we see our Community Partners as long term relationships to be supported in the good times and adversity.

Dividends

The Board has maintained the final dividend for the year taking full year dividends to 25 cents (28 cents 2019) fully franked. Dividends for the year have comprised of an interim dividend of 10 cents (13 cents 2019) and a final dividend of 15 cents per share (15 cents 2019), payable on 31 October 2020 to all shareholders as at 31 August 2020.

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 | \$4,599,000 | 74% |
| Dividends paid/payable to shareholders | \$1,350,000 | 22% |
| Retained earnings | \$ 292,000 | 5% |
| Total | \$6,241,000 | 100% |

Board of Directors

The role and duties of the Board have significantly expanded to meet the opportunities and threats arising from the COVID-19 crises and ongoing focus on governance. This year we put into effect an extensive committee system and welcomed Melissa Robertshaw who has added key marketing and digital platform depth to the Board.

I want to acknowledge the dedication and time they provide in guiding this company for the benefit of all its stakeholders, especially the enormous amount of work that has gone into branch renewal and reaching out to our Community Partners.

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



The Board comprises of L-R: Philip Carey, Stuart Martyn - Chairman, Melissa Robertshaw (appointed 1 January 2020), James Hayne, Anne Parsonson, Michael Arbon, Philip Williamson – Deputy Chairman.

Stuart Martyn
Chairman