

Chairman and Manager's 2022 AGM address

28 November 2022

East Malvern Community
Financial Services Limited

Community Bank
Malvern East

ABN 27 089 542 174



Chairman's address

For year ending 30 June 2022

Good evening and it is great to see many shareholders here, all deeply interested in the social enterprise we know as the Community Bank Malvern East and its future, which is looking very bright.

During the year ending 30 June 2022 the whole team, branch staff as well as the Board, looking to the future undertook considerable efforts to strengthen the business, its finances and to create long term wealth for all stakeholders including our shareholders. Over the last 2 years while many businesses battened down their hatches to survive, your social enterprise remained focussed on its long term plans and the necessary investments to make it happen. All the while managing the perils of COVID-19 and a very significant fall in margin income and operating profits.

I am very pleased to report that the margin income drought has been broken and now your Company is perfectly positioned to enjoy the fruits from the considerable effort put in over the past few years. With the RBA returning interest rates to more normal levels the financial strength and operating results of the Company are now fundamentally different to what has been experienced over the last 3 years.

It is worth recapping just what has been achieved:

- In November 2020 the Branch was one of the first in the Bendigo Bank network to move into modern premises incorporating the latest Network Transformation design features.
- In November last year the Company announced the acquisition of the new premises and a 1 for 3 equity rights issue at \$2.50 per share to help finance the purchase.
- One month later in December 2021 one of the first ever rights issue by a Community Bank company closed 20% over subscribed which was a tremendous vote of confidence by shareholders.
- In February this year the Company established an ASIC regulated Low Volume Market to create a transparent platform for trading shares in the Company.
- In the most recent 12 months the Branch team grew footings by \$32m which is a level of growth that has never previously been achieved by the Branch.
- The Branch team has been substantially refreshed which Ruth will cover in more detail as part of her report.

As you can see this was a period of great change and building for the future.

Returning to our financial results, the first half of the year was a low point for Branch revenue and profitability with the Branch returning an operating loss of \$22,000. In the second half with the benefit of substantial footings growth and official interest rates starting to rise, Branch revenue increased by 11% and reported earnings jumped back into the black with an operating profit of \$69,000. On a full year basis Branch revenue was \$981,000 and operating profits totalled \$47,000 generating a 5% operating margin.

Investment earnings returned a positive \$34,000 but this was well down on the \$159,000 achieved last year. Cash earnings increased by \$70,000 partly as a result of the Company selling several investments for a capital profit of \$48,000 before the last bear market took hold and dividend income more than doubling to \$51,000. The large negative variance in total investment earnings was purely due to the non cash mark-to-market adjustment.

Subsequent to year end, how things have changed!

In September the Board signed off on an Outlook statement for inclusion in the 2022 Annual Report. With the benefit of actual results through to October I can now report that the expected first half results will be at the top end, if not exceed, the range for both Branch revenue and operating profits.

The full year results are now highly likely to exceed the ranges provided in the Outlook statement. Meaning that for the full year Branch revenue should increase by 80+% over the last financial year and operating profits are likely to be more than 18 times higher than the \$47,000 reported for 2021/22.

With the Branch results and cashflows on track to exceed all previous records the Company intends to prioritise:

- Increasing the level of Community Partner sponsorships with the \$5,000,000 milestone in cumulative sponsorships likely to be reached in the first half of the year and full year sponsorships should at least double from last year.
- Completing phase 2 of the branch refurbishment by creating an exciting event space in the rear of our premises.
- Taking substantial steps to rebuild reserves which were drawn down over the last 3 years.
- Fast track the repayment of debt.
- Improve returns to shareholders.

The Branch results are so strong and continuing to build in this current year that cash from operations before sponsorships is expected to reach around \$1.1m, so there is ample room to fund all these priorities.

From an operational perspective Ruth Hall and her team achieved record levels of footings growth, won the Bayside Region "Community Engagement Award" and assisted several branches to remain open when they suffered from staffing shortages. On behalf of all shareholders, I thank Ruth and her team for the outstanding results and the continuing dedication to customer service and the wider Community Banking network during another particularly tough year.

It is worth noting that despite the many changes and ongoing COVID-19 challenges our Branch remained open for business through-out the year and continued to deliver the fantastic customer service that is highly appreciated by so many people.

Last year sponsorships reduced by 17.9% to \$124,000 as the Company operating within constrained financial capacity worked with our community partners to defer where possible some sponsorship arrangements. The lower level of sponsorships was also reflective of the reduction in event sponsorships as many fund raising activities remained cancelled due to COVID-19. Cumulative sponsorships and donations reached \$4.87 million since the inception of the business, are expected to break through the \$5.0 million milestone in the very near future and more than double to around \$250,000 in the current year.

Anne will cover sponsorships and the impact your social enterprise has had in more detail in her Sponsorship Report.

Suffice to say we see our Community Partners as valuable relationships to be nurtured for the long term and look forward to expanding the depth and breadth of the sponsorship programme as our financial circumstances are restored.

In relation to shareholder dividends, the Board has always taken the view of looking through the income cycle to smooth out and ideally provide a reasonably consistent return over time.

Due to lower profits in the last financial year and shareholder distribution constraints imposed by our Franchise Agreement, the Board was limited to declaring a final dividend of 6 cents per share. This was paid on 31 October 2022 and took full year dividends to 16 cents per share fully franked.

Subsequent to year end and recognising the significant turn-around in the operating results that is underway, the Board approved a special interim dividend of 4 cents per share from the 2022/23 financial year payable on 31 October 2022. The final dividend from the 2021/22 financial year and the special interim dividend from 2022/23 amounted to 10 cents per share fully franked which were paid together.

The dividends declared for the last financial year are the first to be paid on the expanded shares on issue which increased by 47% as a result of the capital raisings undertaken during the 1H of this year. Therefore while the annual dividends per share fell from 20 cents to 16 cents in the last financial year the almost \$93,000 total value of dividends declared last financial year increased by 17.5% over the prior year.

As outlined in the Outlook statement it is expected that normal shareholder dividends for the 2022/23 financial year will total at least 20 cents per share which is in addition to the 4 cent special dividend per share that has already been paid. Total dividends declared in the coming 2022/23 financial year are expected to be at least \$139,000 which would represent a 50% increase over the most recent financial year.

To conclude it would be remiss not to acknowledge the tremendous efforts of the Board and the very capable Branch team in taking the Company through to a significantly higher level of profitability and for creating the building blocks for a successful long term future.

I also 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

Senior Manager's report

For year ending 30 June 2022

What an exciting year we have had. One that makes me so proud of what we have achieved together.

A year of 2 staff promotions, with Georgia being promoted to a Personal Banker with the South Melbourne Branch and Bella to a Customer Services Officer with our Parkdale branch. Christine has also chosen to return to full time work and has secured a role with our Cheltenham branch.

A year of record growth in both deposits and lending with our deposit footings growing \$16.2m from \$126m to \$142.2, which was up 202% of plan and lending footings growth by \$12.5 from \$57m to \$69.5m which is up 173% of plan.

Ollie has now completed his 4-year Commerce Degree, he is to be congratulated for his commitment to both work and study as he continued to work and study full time during the past 12 months. Ollie will also be leaving us early in the new year to take up a fantastic opportunity with Pitcher Partners in their graduate program, we will all miss Ollie very much. The hunt is now on to find a suitable replacement.

Taylor has continued to support the whole branch with his strong desire to ensure all customers have the best service at all times. Taylor also leads training and development of the newer staff members who join us.

Mirsada has established herself with our home loan customers and has proven invaluable to Taylor and I, assisting with the lending work as well as the rest of the team with her coaching.

Reggie joined us in July 22 and brings with her many years of banking experience. Reggie brings a positive mindset; she has quickly become one of our customers favourites in the branch.

Our newest staff member is Ed, has settled in nicely and we trust this will be the beginning of a long and prosperous banking career. Ed plays football for Collegians, one of our sponsored football clubs.

The positive culture in our branch is fantastic and has allowed us to experience record growth in deposits and lending. I would

like to thank and acknowledge the staff's commitment to our business and each other.

Again, this year we experienced very low level of discharges. I strongly believe this is due to the level of engagement our whole team have with our customers.

At the annual Bayside Regional awards, we won the very coveted 'Community Engagement Award' this was due to not only how we look after our Malvern East community, but how we have supported many other branches in our region when they were short staffed to ensure they could remain open.

With COVID-19 restrictions becoming more relaxed we have been able to utilise some of the features our branch was designed for. This year we have commenced having local artists showcase their works on our walls, support Cystic Fibrosis Community Care with selling of roses in branch, collecting over 3,000 children's books for 123 Read2me for distribution to lower social economic communities and selling of Kenshi candles that has allowed for over 1 tonne of pasta being donated to Foodbank. Follow us on social media to see upcoming events moving forward.

Preparations are underway to upgrade the rear of the branch to build an outdoor community space that we see us host more exciting customer and community events. Follow us on our social media to watch this space come to life.

I am very proud and thankful of my team again this year. It's been a year of staff promotions, fantastic growth in lending and deposits. We are all very grateful to all of our shareholders and customers for their banking as this allows us to continue to support our community. Our achievements are only possible due to the continued support of the Board for which I am as always very grateful of.

Ruth Hall
Senior Branch Manager

Community Bank - Malvern East
268 Waverley Road,
Malvern East VIC 3145
Phone: 9563 6044
Email: MalvernEastMailbox@bendigoadelaide.com.au
Web: [bendigobank.com.au/Malvern East](http://bendigobank.com.au/MalvernEast)

Franchisee: East Malvern Community Financial Services Limited
ABN: 27 089 542 174
Company Address:
268 Waverley Road, Malvern East VIC 3145
Phone: 0417 399 625
Email: pcarey@netspace.net.au

Share Registry:
Lead Advisory Services Pty Ltd
PO Box 30, Bendigo VIC 3552
Phone: (03) 5445 4200
Fax: (03) 5444 4344
Email: shares@rsdregistry.com.au



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