

21 February 2023

Dear Shareholder,

I am pleased to report on the Company's results for the first half of the 2023 financial year ended 31 December 2022. As outlined in our 2022 Annual Report and then extensively covered at the 2022 AGM, this latest half year has seen a fundamental change in our Branch revenues as the RBA has returned to more "normal" interest rate settings. Combined with strong footings growth this has produced a first half result for the Company that has surpassed all previous records by a very long way.

From a financial perspective our before tax profit for the half year to 31 December 2022 was \$315,000 a massive turn-around of \$346,000 from the prior comparable period (pcp) which was a \$31,000 loss. The operating profit before sponsorships and tax was \$455,000 up \$441,000 from \$14,000 in the pcp.

The key reasons for these outcomes are:

- A \$501,000 improvement in Deposit margin income (detailed below), partially offset by a \$48,000 decline in Lending margin income as RBA official interest rates return to "normal" levels.
- All Branch operating costs rose by \$16,000 or 3.3% compared to the pcp which was well below the level of inflation.
- Investment earnings rose by \$4,000 compared to the pcp.

Very weak deposit margins had considerably depressed Branch revenue over the previous two years. The deterioration in the Deposit margins that the Branch received over the past few years was accelerated by the RBA's emergency rate cuts that were largely implemented in the first half of 2020. This latest half year ending December 2022 is more representative of the true earning potential of the Branch as official RBA interest rates are returned to more "normal" levels. A very strong rate of Deposit business growth, up 17% on the pcp was leveraged multiple times by the average deposit margin climbing from 0.14% to 0.84% over that same period. The end result was an astounding \$501,000 increase in the Deposit Margin Income the Branch received.

The table below puts this into historical perspective, showing not only the substantial growth in Deposit balances but also the correlation between changes in the RBA official rates and the deposit margins the Branch receives.

EMCFS Ltd - Deposit Margin Income				
Six months ending:	Margin Income \$'000	Ave Deposit Balance \$m	Ave Deposit Margin	Ave RBA Target Rate
31 December 2019	229	106.3	0.43%	0.88%
31 December 2020	138	115.8	0.24%	0.18%
31 December 2021	104	122.3	0.17%	0.10%
31 December 2022	605	142.6	0.84%	2.35%

The even better news is that the growth in our Deposit margin revenues has further to go.

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Trading Results

Half year ended (\$'000)	2022/23		2021/22		% Change	
	1H	2H	1H	2H	1H	2H
Community Banking						
Branch revenue	916	516	465	78%	97%	
Branch operating profit	413	69	(22)	499%	n/a	
Operating margin	45%	14%	-5%	31%	50%	
Investment Income						
Cash investment earnings	18	82	51	-78%	-35%	
Mark-to-market adjustment	24	(75)	(13)	n/a	n/a	
Operating Profit before Sponsorships and Tax	455	76	14	499%	3,150%	
Sponsorships & donations	140	79	45	77%	211%	
Net profit before tax	315	(3)	(31)	n/a	n/a	
Branch Footings (\$m)	227.9	214.8	192.4	6%	18%	

Community Sponsorships

In parallel with the strong growth in Branch operating profit the level of community partner sponsorships was expanded by 211% to \$140,000 involving 24 different community groups in the half year. One of the highlights of the half year was passing through the \$5,000,000 milestone in cumulative sponsorships and donations. Fittingly the community partner that took us through the \$5,000,000 mark was the Lloyd Street School in Malvern East who coincidentally was the recipient of our very first sponsorship grant in October 2001.

We are very pleased to be able to continue our Community Sponsorship programme that has distributed \$5,014,000 to charitable organisations, local schools, sporting clubs and disaster relief since our beginning.

Dividends

The Board strongly believes that shareholders should be rewarded especially as the Branch revenue and operating results have considerably improved. Earlier this half year a special interim dividend of 4 cents per share fully franked was declared and paid. For the 1H interim dividend the Board has resolved to pay a fully franked dividend of 12 cents per share (10 cents pcp) to all shareholders on record as at 15 March 2023. The dividend will be payable on 31 March 2023. This will take total dividends paid/declared for the current half year to \$92,669 which is 60% higher than the pcp.

Low Volume Market (LVM)

The Company established an ASIC regulated LVM on 15 February 2022 to offer a more transparent platform for existing and new shareholders to buy and sell Company shares. Since that time there has been limited activity and pleasingly there are at the date of this report 8 registered buyers bidding up to \$2.76 per share. If individuals are interested in either buying or selling Company shares on the LVM further details can be found using the following link:

[\[East Malvern Community Financial Services Limited\] Trading Shares | Bendigo Bank](#)

or copying into their web browser:

bendigobank.com.au/branch/vic/community-bank-malvern-east/lvm-shares/

Cumulative returns to all our Stakeholders

As always the Board strives to keep the balance between all our stakeholders including shareholders while staying true to the spirit of the Community Bank programme and franchise agreement. Since the business started the cumulative returns from our social enterprise to the community and shareholders are as follows:

Sponsorships and donations	\$5,014,000	71%
Dividends paid/payable to shareholders	\$1,615,000	23%
Retained earnings	<u>\$ 427,000</u>	<u>6%</u>
Total	\$7,056,000	100%

Other Developments and Outlook

Across the banking industry in general there has been an upswing in branch network consolidation and the Company is examining opportunities to profitably grow scale and expand our footprint while also conscious of the changing needs of our customers. The long term industry trend is for gradual decline in margins and so to ensure the Company continues as a sustainable social enterprise long into the future requires investment to build scale and develop our people. This is something the Board will be closely examining.

In this period of significant transition in our profitability it is appropriate to provide some guidance on indicative full year results.

	Actual FY 2022	Indicative FY 2023
Branch revenue	\$981,000	> \$2,000,000
Branch operating profits	\$ 47,000	> \$1,000,000
Sponsorships and donations	\$124,000	> \$ 250,000
Dividends per share paid/declared	16 cents	at least 28 cents

No guidance is provided for Investment Income as this can be highly variable.

Finally, I would like to acknowledge the considerable efforts put in by the Board during the last 6 months to execute on it's long term strategies and plan for the future. The entire Branch team led by Ruth Hall is fully deserving of special mention where great teamwork with a friendly, customer centric can-do culture is producing tremendous results with business growth and customer feedback.

Thank you for your continuing support,

Yours faithfully,



Stuart Martyn
Chairman