

Chairman and Manager's 2021 AGM address

29 November 2021

East Malvern Community
Financial Services Limited

Community Bank
Malvern East

ABN 27 089 542 174



Chairman's address

For year ending 30 June 2021

Good evening and it is great to see so many shareholders here tonight, all deeply interested in the social enterprise we call Community Bank Malvern East and the big plans for its future.

As you would be aware, subsequent to year end the Board has laid out a bold vision for the ongoing success of the company and I am sure there are many questions but we will turn to that later in the evening and make sure there is ample opportunity for everyone here tonight to understand and hopefully share in the vision.

Returning to the past year, 2021 was certainly a transformative year for the company, still heavily influenced by the global pandemic. The full year results significantly benefited from the diversity of income and the variable nature of our community partner program. Demonstrating yet again the sustainability of our social enterprise to operate through severe economic turbulence and to continue to provide essential banking services at the local level.

With most of the country (outside Victoria) re-opening after the first nationwide lockdown our investment returns strongly rebounded with a positive \$159,000 contribution to revenue and operating profits compared to a \$60,000 loss in the previous year. The \$219,000 turn-around in investment returns largely offset the material impact of declining deposit interest margins which alone resulted in a \$236,000 reduction in branch revenue compared to the prior year. Interestingly in two out of our last three financial years the investment returns have exceeded branch operating profits before sponsorships and so it was last year.

At last year's AGM we discussed several long term trends in retail banking that the Board could no longer afford to ignore, they being:

- declining interest margins and fees,
- declining foot traffic through the branch,
- official interest rates moving close to zero reducing the profitability of our deposit book, and
- the aging population which generally have less need for lending facilities and which happen to be the group where the bulk of our customers are drawn from.

Declining interest margins are a long term threat that your Board has front and centre in focus and has underpinned the decisions to:

- a) move to smaller premises,
- b) undertake the Network Transformation branch refurbishment,
- c) hire additional staff to help build scale, and
- d) most recently to purchase the branch premises.

In 2021 the branch operating profit fell by \$257,000 to \$124,000 principally due to a \$164,000 reduction in branch revenue. The benefit of growing branch footings added \$52,000 to branch revenue while the change in interest margins resulted in a net \$197,000 reduction in branch revenue, comprised of a positive \$39,000 from Lending and a negative \$236,000 from Deposits. We are operating in an extremely low interest rate environment, however official interest will eventually return to more normal levels and so will our margin income. Meanwhile we must build

scale and reduce costs where we can while still preserving our Community Partner relationships that truly make us the social enterprise we are all proud of.

For our company the low rate environment has seen interest margins on deposits fall by almost two thirds over the last 24 months. The light at the end of the tunnel is however in sight as deposit interest margins appear to have bottomed out in the second half of 2021, while on the back of continuing solid growth in footings the Branch Operating performance has now returned to an upward trend which is very welcome.

Ruth Hall and her whole team have done a fantastic job, not only coping with the many COVID-19 disruptions to keep our doors open throughout the pandemic, but managing the move to our new branch. This has set the branch up to thrive and for enduring success. Growth in footings has certainly accelerated following the move to our new premises with an 8.3% growth in branch footings to \$182.8 million in the year to 30 June 2021. In the 5 months since, branch footings have grown by a further \$11 million or 6% and so the tide is slowly moving our way.

While there is certainly positive momentum, we must do more to ensure our company and the Community Bank Malvern East has a secure and long term future. Right now in metropolitan Melbourne there are two instances where Community Bank branches are being closed and their footing books being purchased by nearby Community Banks. Bendigo Bank is separately merging several company owned branches and this same trend is being replicated on mass across the retail banking industry. We are at the early stages of a fundamental shift in retail banking!

Your Board fundamentally believes that a Community Bank can only thrive when it is centred in a community that it can both nurture and draw strength from. When the opportunity recently arose to acquire our branch premises we were able to bring forward our longer term plans. We have now planted a very solid stake in the ground;

- with the consent of Bendigo Bank,
- after considerable legal review, and
- the co-operation of our landlord, now largest shareholder, who saw our social enterprise closely matching his own way of thinking.

The purchase of the Branch premises will create immediate cost savings. In time as the loans are repaid, these savings will continue to build and at the same time the commercial value of the premises is also expected to grow substantially. From a shareholder perspective this will achieve two significant outcomes:

- it will materially lower operating costs, and
- it is expected to multiply the Net Tangible Assets (NTA), currently \$1.95 per share by a factor of 3 or 4 by the time the loans are repaid.

To prudently finance this property purchase the Board has approved the Offer Information Statement (Offer) that has now gone out to all shareholders providing a 1 for 3 entitlement offer and the opportunity to further top up their shareholding. All shareholders have the opportunity to buy these New Shares

at the same \$2.50 per share price that was used to value the 40,000 vendor shares issued as part of the property purchase, so it is fair to all. Even for shareholders who elect not to take up their entitlements, then all other things being equal, the NTA of their shares will increase from \$1.95 to approximately \$2.13 per share.

The Offer for just on 145,000 New Shares opened last Monday and is expected to close on 10 December fully subscribed. Already many applications have been received with 60% who have responded applying for additional shares over their basic 1 for 3 entitlement with an average investment of \$6,000 per applicant.

I cannot provide investment advice, all I can do is point out what is happening and encourage all shareholders to read the Offer

document and favourably consider increasing their investment in our fantastic social enterprise that has already achieved so much and is now positioned to achieve so much more!

To conclude it would be remiss not to acknowledge the tremendous efforts of the Board and the very capable branch team in steering the company through the past year and creating the building blocks for a successful long term future. I also 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.

Stuart Martyn
Chairman

Manager's report

For year ending 30 June 2021

We have now had a full 12 months in our new home and what a year it's been, with new branding and new uniforms that are more relaxed and in tune with our Future Network site.

We have had a very successful year and a good start to the current year. This has seen lending growth of \$4 million to \$57 million as well as deposit growth of \$10 million to \$126 million. Pleasingly we have seen a marked reduction in loan discharges that has also assisted with our lending growth and sees our balance sheet at \$183 million as at 30 June 21. With the record low interest rates I feel the level of deposit growth is a good outcome.

Pleasingly our monthly income showed marked improvement off the back of the growth of the balance sheet. With the current lending pipeline and strong start to the year we are well positioned to see further improvement moving forward.

Over the past 12 months we have seen Ollie successfully complete his traineeship and become a customer favourite at the branch. Ollie has taken the Insurance Champion baton from Christine and will continue with this for the current year also. Ollie has had a heavy workload as he is also studying full-time towards his degree in Business.

Georgia has taken on an additional role to help us look after our mental health during the challenges of the past 12 months and I credit the activities Georgia had us participate in with helping us grow our resilience and stay strong – thank you Georgia as this has been so very important during the past 12 months.

Due to the success of the Traineeship program Bella has also joined the team in July to begin her journey in Banking and Finance.

Christine has taken on the role of Wealth Champion this year to help us achieve target in this area that has proven challenging in the past few years.

Our most recent appointment is Mirsada, who has joined the team in August to assist with our loan writing, which in turn will allow me to become more mobile to undertake more

business development work through our partnership groups.

Taylor has obtained his Discretionary Lending Authority (DLA), this is a credit to his well prepared loan files and will assist him service his customers better moving forward. Taylor also continues to look after our existing loan customers as well as provide support to myself and newer team members.

We again have been very fortunate to not be adversely affected by COVID-19 and with community vaccine rates well advanced this risk is reducing also. This year our branch introduced COVID Free Conversation Friday's to look after our own mental health and also hopefully give our customers a more positive conversation when they attend the branch on Fridays. This idea has been sponsored by Senior executives of the Bank and is now supported by the retail network - we are pretty proud of our little idea.

Following our hard work we were fortunate enough to be selected winners of the Regional Managers Award at the 2019/20 Regional Awards, which was a great acknowledgement of the teams efforts.

Many of our planned functions and financial education series of events aimed at our younger customers have had to be postponed and will now be held early 2022. The postponement of these events is disappointing as we see this as an important way to assist younger client base obtain financial literacy and assist us grow our customer base.

I am again grateful to my team for their ongoing hard work and the Board for its ongoing and continued support to me and the whole team during this challenging COVID-19 affected year.

Ruth Hall
Senior Branch Manager

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 **Bendigo Bank**