

Valley Community Financial Services Limited

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Franchisee of Bendigo and Adelaide Bank Limited. Fountain Court, Bendigo VIC 3550.
ABN 11 068 049 178. AFSL No. 237879.



Annual General Meeting
13 November 2013

CHAIRMAN'S ADDRESS

A quick snapshot of the 2013 financial year versus 2012 financial year reveals a good business heading in the right direction with a moderate result in a difficult economic environment.

We have:

- Passed the significant milestone of banking footings in excess of \$400 million. VCFS is one of only a handful of community banking groups to have achieved this.
- Income across the group up \$436,000 or 12 per cent
- Net profit before income tax and community contributions up \$157,000 or 35.6 per cent
- Dividends 3 cents per share up 50 per cent
- Community contributions in the form of sponsorships, grants and donations just short of \$295,000 up 63 per cent
- We completed our financial obligations to the **Community Bank** Stadium and have another nine years in naming rights to help promote and grow our business

The year proved to be challenging for a number of reasons:

- Reductions in the cash rate by the Reserve Bank impacts on margins
- The community shift away from credit
- A tough housing market and strong competition for business
- The impact of the revenue adjustment program implemented by Bendigo and Adelaide Bank (BABL).

While the main reason the communities we serve sought to open local community banks was to strengthen those communities, it is pleasing to be able to provide shareholders solid returns on their investment.

For our most recent investors we continue to pay dividends when the new branches are still accumulating losses. Accruing losses for the first three to five years is normal and receiving dividends is the benefit of being part of an established **Community Bank**® enterprise in the region. Our original investors have enjoyed good capital growth and dividends over the years.

We have a dedicated team of managers and staff who work hard and are usually also members of our communities. They regularly attend functions and meetings outside of banking hours to help engage and communicate with the various service and sporting clubs and community groups in the region. They offer outstanding service, some may say old fashioned service and consistently receive compliments for their work from customers. I have placed some of those customer remarks around the room tonight and attached to this report. That is how we do business and that is why it works. We are a people organization.

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Others may try to jump on the community support band wagon but no one supports our communities in the way we do.

It is through our support for local community that we seek to engage local people and businesses to support our business in return. This is a formula that works well and has done so right across Australia with community contributions nationwide now exceeding \$100 million.

This community engagement helps to:

- Grow our business
- Provide economic stimulus through local employment, sponsorships and use of local suppliers and contractors
- Improve the community balance sheet with the social capital we now provide
- Offer an income stream to a raft of community organizations, service clubs, schools and sporting clubs.

Our \$4 million in turnover almost all stays here in our region - a boast we can all be very proud of.

The year ahead continues to be challenging with BABL's revenue adjustments impacting on our income and continued strong competition. Your directors will continue to try to contain our costs and look to grow our banking footings.

We have had a slow start to the 2014 financial year across four of our branches. The outlook is improving as the year progresses. Hurstbridge in particular and Diamond Creek are travelling well and enjoy terrific support from local people and businesses. Our Doreen/Mernda branch has experienced good growth over the last six months and is set to outperform budget if the growth continues. Kinglake is now on track and surprises us all how well it performs in a community still coming to terms with the new norm. Eltham is in a very competitive market and we look to shareholders to both support our business and become more active advocates for our business. Any shareholder that does not support our business slows the profit goals of the group. Our business is very much a participatory organization from capital investment to support for the business to support for your own community groups.

We will have to contain our community contributions to achieve our profit target as we continue to consolidate our business and push the new branches to achieve profit.

Bendigo Bank is embarking on the first strategic review of the **Community Bank®** model and all its elements since its inception 15 years ago. This is called Project Horizon. The aim of Project Horizon is to set a shared vision for the model for the future which will deliver benefits to all stakeholders. In short, Bendigo Bank wants to ensure that the model continues to evolve and strengthen in an ever changing world.

In my Chairman's Report I outlined the continuing corporate review the Board have taken throughout this calendar year. As a final stage to that review the Board have decided, in light of

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the growing size of our business, to trial a division of leadership responsibilities. While acknowledging the role of Chairman as an integral part of the business and one that demands a significant input of time and expertise, we also perceive a need for a chief executive. This role provides both operational leadership to banking staff, and executive control of all matters requiring high level support, such as negotiations with various sectors of government and other companies as such matters arise. For the time being, I will carry out both roles, the latter being a part-time paid position. The success of this trial model will be reviewed after 12 months. In this new role I am determined to find more creative ways to grow our business, assist our people to work smarter, and develop valuable networks that build our business and strengthen our communities.

I would like to thank the Board for their dedication to their roles. I find them an extraordinary group of individuals. I want to also acknowledge the importance of our staff and managers as key to our success and the incredible level of commitment they have to our business.

An example of this great commitment is the Customer Service awards by Bendigo Bank to Jennifer Pearson, our Doreen/Mernda Manager and Cathrine Homewood, our Kinglake branch Customer Services Manager (see attached). Not only were they winners of the regional award but were winners of the national awards. Bendigo Bank awards the BEing the Bendigo award for staff going above and beyond their call of duty.

Thank you to our administration team who are incredibly loyal to our business and contributes well beyond the call of duty.

I would like to acknowledge the partners of our directors and their support and patience. I especially want to thank my wife Janice, who makes it possible for me to work for VCFS. She has never once complained or made it difficult for me.

I also want to thank the many shareholders who support our business and believe in what we are about. At the many functions staff and directors attend, shareholders will often make sure we know they are there and are clearly proud to be a part of this company.

Finally I would like to thank the Bendigo and Adelaide Bank. They continue to offer enormous support to our business and staff and are also very participatory in ensuring our business continues on the right path and that we fulfil our legal obligations. I have said in previous years they offer support that many other franchisors would not even consider offering their franchisees and I still believe that to be the case.

A handwritten signature in dark ink, appearing to read 'Barry Henwood'.

Barry Henwood
Chair
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Bendigo and Adelaide Bank Limited

BEing the Bendigo Moment: Awarded to:

Jennifer Pearson – Branch Manager from Doreen & Mernda (June/July 2012)

One of Jenny's first business development activities was to meet with all the Real Estate Agents in the area. This was an opportunity to introduce herself and let people know that the branch was now open. Also, she was able to talk about how the community bank model worked. Jenny had come from Plenty Community CU which in turn had recently been taken over by CUA. She knew that CUA were no longer supporting sponsorships that Plenty Community CU were involved in and one of the clubs effected by this was the Mernda Cricket club. With the above local knowledge she met with Steve who is a Real Estate business owner and on the committee of the cricket club, he has been involved with the cricket club for a long time. He really got it and could see the community benefit if up to 80% of the profit could remain local. Initially it was hard to get his personal business, but he bought the cricket club over. He was also impressed with the service of Jenny and the branch and their willingness to find answers and get back to him. He valued the service so much that he also invited Jenny to speak to the sales staff at the Real Estate office. The staff are now starting to refer business to Jenny for the service and knowing that they will be looked after. Also, Steve promoted the bank to the cricket club- "go up there and see Jen". To date four home loans have come across and \$900K in deposits and includes his personal superannuation. Steve is appreciative - and at our sponsorship grants night, asked if he could speak. He recounted the great service that customers get at the branch but also encouraged everyone to get in behind the branch. This connection has now added over \$1.4M in lending and \$900K to Doreen's book.

Cathrine Homewood – Kinglake, Victoria (October 2013)

A customer who had an ultimate account visited the branch to apply for a personal loan for a car. Cathrine spoke to the customer. The application revealed that the customer had a home loan with another financial institution. The customer had previously mentioned the possibility of refinancing her home loan in the future.

While dropping by the applicant's place of work to deliver some paper work, Cathrine took the initiative to mention that now would be a good time to consider the home loan application as we had most of the documentation required.

Now, on top of the personal loan, there is a refinance of the home loan and in the near future, a further advance for renovations.