

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
11 November 2015

CHAIRMAN'S ADDRESS

Valley Community Financial Services Ltd is a great business. During the 2015 financial year we continue to experience strong growth in our core business. The funds under management that is deposits and lending combined grew over 10% for the year - the total being \$484 million.

While our book continues to grow well, we still experience a reduction in margin so our gross income was slightly down in 2015 versus the 2014 financial year. We managed to contain our costs and continue to review those to maintain our profitability.

The overall result has enabled us to grow our retained earnings to make the company balance sheet strong, contribute \$210,000 back to our communities and have declared a fully franked dividend of three cents a share.

Our branches have been recognised for the good results for 2015. In October our Eltham **Community Bank®** Branch received an award for the largest growth in lending book for 2015 and the Diamond Creek and Hurstbridge **Community Bank®** Branches received awards for their terrific community engagement for 2015.

Hurstbridge, Diamond Creek and Kinglake are profitable branches and our Doreen and Eltham branches continue to be ahead of projections in the size of their books. Unfortunately today's margins are in some cases as much as only half what they were five years ago making it difficult for these two branches to reach profit. I am happy to be able to tell you that for the month of September 2015 the Eltham branch showed a profit for the month for the first time of \$1000.

During the 2015 financial year we introduced a new product developed by the bank known as Redy. The product was a new form of electronic funds transfer whereby a customer could download an application to their smart phone which could read a similar application at the point of sale. This meant you could have your wallet on your phone. The product enables a .5% contribution at the choice of the customer to a registered local community project. The plan was to give community groups, clubs, schools and organisations the opportunity to expand their income stream just by shopping local. We offered a win-win for everybody, a loyalty program encouraging people to shop local and an opportunity for community to fund projects. The benefit to our business was the long-term customer acquisition introducing consumers to the Bendigo bank via the application on their phone and at point of sale and via the interaction and communication with our staff to local businesses.

Not everything you try works and this was one of those projects. The technology wasn't necessarily good enough, community groups and their members didn't embrace it and local businesses found it slow and cumbersome and their support dropped off rapidly after the introduction.

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One bright note to come of the program was that our staff and managers did take the opportunity to reconnect and introduce themselves to local business. They had an opportunity to talk to local clubs, schools and service organisations. The program gave our business a tremendous opportunity for community engagement. It's also given us a chance to flag with all of these organisations that the funds are always limited and the only way we can support them in the future is if their members support our business. That's the core to the way our business model works and how it will continue to be successful.

We are still grappling with the new revenue model the bank intends to introduce on 1 July 2016. The impact to our business revenue is substantial. We have seen figures based on our current business mix that predict the loss of income in the order of over \$160,000 per year. At this stage that figure would be totally reflected in our net profit. Most of our costs eg staffing and overheads are fixed and further cuts to expenses are difficult.

My role as Executive Chairman of the board has authorised me to undertake a total review of our business. We are looking at the size of our footprint in each community, the staffing structure in each branch and the way our managers have to operate. Since 2013 our across the counter transactions have dropped more than 20%. We also know that more than 90% of our business growth comes from those people that still come in or wish to speak to our staff and managers. We are seeing the change with a need for less teller staff and more highly skilled people, able to service the needs of our modern customer. In June this year we conducted a minor re-fit of the Hurstbridge branch. The purpose of this refit was to create space for the future to accommodate future staffing requirements and we reduced the size of our counter. These changes reflect the change in the way our customers use our banks. I believe there is a better way to do business - freeing up our managers to enable them to go to the client and offer a service when the customer wants it and provide some centralised management. We are looking to gain some economies of scale savings and utilise our staff more efficiently and effectively. We currently operate five single branches - we need to become one company with five sites.

We already have two of our branches starting to operate in what I see is the new world. Our Hurstbridge Branch Senior Banking Manager, Dion Shirley is able to leave his branch and regularly attends to customers' needs and requirements at their office or their residence. Hurstbridge continues to rank in the top 1 or 2 for the region in number of loans and size of its business. This reflects the success of this program. Our Business Development Manager, Michael Maloney, has the Eltham branch set up to enable him to work his patch and regularly visit clients. Michael now has a company car branded to our business to enable him to perform his role to the best of his ability. The award mentioned earlier to his branch for the 2015 financial year, is evidence that this is the way of the future.

The Bendigo Bank have been very supportive in this process and facilitated a couple of meetings for us with our managers and the board. The Bank has recognised the need for change and has in place a number of trials trying new staff structures and systems as well. They intend to share the results of those trials in the very near future.

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The Bendigo Bank have undertaken to provide training programs for our staff over the last 18 months. Staff are being up skilled and offered sales training to enable them to recognise and secure new opportunities in not just lending and deposits but also insurances and wealth products.

At tonight's meeting your board is recommending you accept the motion to move from the NSX to the low-volume market. When VCFS Ltd decided to move to the National Stock Exchange it was intended to create a market value for our shares and to provide a platform for transparent share transfers. As reported at last year's AGM there are far too few transactions to set a fair market price, for the most part shares change hands due to changing family conditions, deceased estates or children coming-of-age. In these circumstances the shares are often unloaded with no concern for the value - just take whatever is offered. There are very few buyers and sellers.

The NSX imposes regulatory reporting obligations that are quite expensive to prepare for compliance. We also have imposed upon us annual fees and charges in excess of \$8000 per year which has yielded very little benefit to our shareholders or our company.

Alternatively the low-volume market provides all the regular legal protection under corporate law. The market framework is provided by the corporation's exemption notice 2003. We are also able to monitor the continued local ownership of our shares and ensure no one has more than 10% ownership of the company as is part of our Constitution. With the NSX a company is not permitted to have base number provisions.

We still have reported to us a significant number of our shareholders that don't bank with us. This is your business. There's more to it than owning a share - we need you to use our business. Every time you use the services of your **Community Bank®** you benefit the broader community as well as yourself and your families.

Valley Community Financial Services Limited is fortunate to have a great team of Director's, Managers and staff. Please give them a call next time you have an insurance policy fall due or any new banking business that comes along. One account at a time is a great start. If you're looking for wealth advice and products give us a call and the staff will happily set up a meeting.

I for one have all my personal and business banking with our branches and I can tell you first hand that the service is absolutely terrific. I've always found our Bank to be competitive and in recent times extraordinarily helpful during a difficult patch.

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

Barry Henwood
11 November 2015