

## CHAIRMAN'S ADDRESS

### 2015 Annual General Meeting

In this, my seventh and final address at an Annual General Meeting of our company, I am starting to feel like a broken record when I report on the difficult trading conditions that have befallen your company during the twelve months to 30<sup>th</sup> June 2015.

But difficult they have been and the circumstances that have made it difficult for Rye & District Community Financial Services Limited are those being experienced by the bigger banks, as well.

In his recent farewell address at the ANZ Bank AGM, its Managing Director, Mike Smith, lamented on the effect of the margin squeeze on his company.

The Managing Director of our own partner, Bendigo and Adelaide Bank Limited, Mike Hirst, said at its AGM last week that, although Bendigo Bank was in a better position than in previous years, market conditions had not changed that much from a year ago when business and consumer confidence were low, and consumers were repaying debt at record levels.

Indeed, statistics have confirmed that Australians have continued to pay down and pay off debt at record levels over the past twelve months.

To put this into the context of our company, in order to grow our business, every loan that is paid off or has payments made in advance, means that that balance has to be replaced by new business.

Just imagine a bucket with holes in the bottom. Despite how much water you pour into the top, water continues to run out the bottom.

That's the analogy most suitable for our business.

Yet despite this leaking bucket, the total value of our business grew from \$468 million last year to almost \$527.5 million this year – an increase of 12.7% on an exceptionally high base.

We passed the magical \$500 million mark in April 2015 and in doing so, became one of the two or three **Community Banks**<sup>®</sup> in Australia to surpass this significant milestone.

Yet, despite growing our business by 12.7%, our revenue for the year only increased by 3.5%, clearly demonstrating the impact that the margin squeeze is having on our business – caused mainly by the extremely low interest rate environment in which we operate.

I am pleased to report that the two residential units at the property developed by your company at Rosebud have been sold and that the retail tenancy has been let on realistic commercial terms on an extended lease.

Whilst our normal trading operations resulted in a surplus, the accounting treatment, including our GST and capital gains liabilities arising from the Rosebud development, have resulted in the company reporting an after tax loss of \$152,904 for the year, down from a profit of \$309,196 last year – an abnormal result arising from abnormal circumstances.

Given normal trading conditions in the present financial year and the revaluation of the four commercial properties owned by your company before the end of next financial year, your board remains confident that this result is a hiccup on our path to sustained success.

It is considered that the company's balance sheet will show a material gain in net equity next year when a commercial approach is adopted towards the valuation of our property assets.

Yet, despite reporting this loss, I am pleased to be able to confirm that your company will, once more, pay a fully-franked dividend of \$0.06 per share – payable on 20<sup>th</sup> November for those shares held as at 31 October 2015.

This dividend return is identical to that paid last year.

As I mentioned in opening, this is my last meeting as your Chairman and as a director of our company. I am retiring tonight after being a director for the entire life of this company – over fourteen years.

It is amazing to reflect upon the journey taken over the years since formation.

From a single branch opened because all the major banks pulled out of Rye, to a company with three branches, eighteen staff and footings of \$527 million and a leader of **Community Banks**® throughout Australia, you have every reason to be proud of this company and its achievements.

I acknowledge the vision and drive of our founding Chairman, the late David Keech, who drove this company into existence and I thank Peter Van Duren, my predecessor, for his leadership and guidance during his term as Chairman of the company.

Special mention needs to be made of our Senior Manager, Gary Sanford who, like me, has been here since before the day we opened the door for business.

Make no mistake, Gary is, by far and away, the greatest asset of this company and without his zeal and belief in the **Community Bank®** model, we would not be where we are today. Our position in the world of **Community Banks®** is envied because of Gary Sanford and I thank him for his support and dedication.

I also thank all the staff who have supported Gary during my time – those serving currently and those who have gone before. Our reputation for delivering efficient and friendly customer service has been earned by their efforts and I am truly grateful.

Shareholders should be very proud of the efforts of their board of directors who, after all, have been elected to represent shareholder interests.

I can advise that your directors take their governance responsibilities extremely seriously and are constantly developing their skills by undertaking various development programs offered to us by our partner, Bendigo Bank. During recent times, two of our directors have undertaken and passed the Company Directors Course run by the Australian Institute of Company Directors and a third director is due to commence the course in 2016.

I am indebted to the support and assistance of:

**Pat Tonks**, as Treasurer and member of the Finance Committee who has been with me since day one and now becomes the only remaining foundation member of the board.

**Steven Edmund**, as Deputy Chairman and Chairman of the Marketing Committee;

**Gary Cain**, as a member of the Finance Committee and advisor on financial issues;

**Barry Irving**, as a member of the Marketing Committee and as our liaison officer with the YMCA for our involvement in the Rye Youth Centre and its associated activities;

**Andrew Emerson**, as Chairman of our Property Committee;

**Janet Hall**, as Chairman of the Governance Committee;

**Dorothy Mortlock**, for her role as Company Secretary and as a member of the Governance Committee and her mentoring role with the Rye Youth Centre;

**Vin Cheers**, as a member of our Sponsorship & Marketing Committee and

**Amber Earles**, our newest and youngest member, who has invigorated our board, particularly our Sponsorship & Grants Committee.

Under our Company Constitution, **Gary, Janet, Barry and Dorothy** are all required to retire by rotation at this AGM and, being eligible, have offered themselves for re-election at this meeting.

I have no hesitation in recommending their re-appointment.

I thank Bendigo and Adelaide Bank Limited for their partnership to our company and for their contribution to our success.

I would ask our current Regional Manager for the Mornington Peninsula region, Simon Sponza, to convey my gratitude for the support given to our company in general and to me in particular over the journey.

Like all partnerships, there have been challenges and disagreements along the way, but I am proud to say that the culture and nature of the relationships existing between Bendigo and the **Community Bank**<sup>®</sup> companies are ones designed to deliver mutual benefit to both parties.

But, perhaps, the greatest achievement of this company has been its ability to help build the communities in which we operate.

At the end of this meeting, we will announce sponsorships and grants of over \$160,000 to 77 community groups and will have distributed over \$200,000 to local groups since the start of the current financial year.

We will match this result in the first six months of 2016 – taking our contributions for the year to almost another \$500,000.

We have allocated over \$5 million dollars to the local community in the form of sponsorships, grants and donations since 2004.

If I sound like I'm bragging – you're right.

What other bank in our local area can make such claims.

And it is all because you, our shareholders, had faith in the concept of **Community Bank**<sup>®</sup>, invested in it, supported it with the transfer of your banking business and encouraged others to do the same.

Our ability to provide financial support to the local community is only possible as a result of the banking support we receive from our shareholders and customers.

My final vote of thanks goes to you.

Thank you for making all of this possible.

Thank you for allowing me the privilege of serving you as a director and more recently as Chairman of this amazing company.

**Shane McCarthy**  
Chairman

18 November 2015