

Chairman's Address – LCFSL AGM 2005

Delivered by: Mr Colin Nelson, Chairman of Logan Community Financial Services Ltd at Springwood, QLD, on 7th November 2005.

Good afternoon

In my report this year you will hear much about our focus on the triple bottom line – people, profit and planet – and the actions the board have taken to develop this philosophy whilst running a business in a challenging and competitive marketplace and holding true to our vision to provide the Logan community with a level of involvement that directly benefits customers and the wider community through the purchase of everyday services.

The community bank model continues to expand throughout Australia; there are now 163 community bank branches of Bendigo Bank through the country, of which nearly 40 are now returning dividends to shareholders, as well as significant returns to both local and global community needs.

When you consider that of these 163 sites, 62 have been open less than 2 years, this is a significant achievement, and an enormous recognition of the Bendigo Bank brand throughout areas not traditionally serviced by this Victorian regional organisation.

So what does this tell us, in Logan, and why is it important? It is important because it's all about people, the first part of our triple bottom line triangle. Its about people like you and me, banding together to build something extraordinary – a public company that not only provides essential services to its community, but that has at its core its reason for existence – to return wealth, employment, youth and knowledge capital to the area it is derived from – the people that support the business. The support of a company with the track record, history, financial standing, community focus, brand recognition and most importantly the vision and single minded purpose of individuals such as Bendigo Managing Director Rob Hunt, and Bendigo senior executive and Logan Director Russell Jenkins, is the pivotal point in this growth and success.

There are many competitors in the banking marketplace who attempt to copy the community bank model developed by Bendigo Bank. LCFSL will not support these as we don't believe that they have the strength, size, market capitalisation, or commitment to succeed in the long term, nor to provide their partners with the branding, support and experience necessary to ensure that communities derive a real benefit from the operation of the business.

During the last year the board has faced some challenges in the banking marketplace – the increase in interest rates that has contributed to the slowing of the housing market, the proliferation of competitors pretending to be 'there for the community', and the rising costs of running a business – especially in areas such as insurance, provision of technology and regulatory costs.

Our belief is that all of these factors are combated through our focus on quality people. From those who greet you as you enter our branches to those behind the scenes who process transactions to

the board members and other community members who facilitate the growth of the business – this is the key difference that we as an organisation offer to our customers, shareholders and community – our focus on people.

To this end we have this year worked with our staff and managers to train, encourage, and develop our staff from within, and I am proud to say that we have promoted more than 5 staff into new or higher roles this year. These roles are designed to provide an increased level of face to face contact and service to customers.

Unfortunately we said goodbye to two managers – Steve McCormick at Springwood and Simon Reeves at Marsden. Steve has moved to the Gold Coast into a role closer to that he enjoyed in New Zealand, and Simon has moved to Melbourne due to family reasons, but remains within the Bendigo Bank family.

This has opened an opportunity for others, and we are proud to welcome Heather Scofield to Springwood ([Heather stand up](#)) who joined us a few months ago, and Drue Hutchinson to Marsden ([Stand up Drue](#)) who joined us from Victoria last week. Heather has already made changes to the staffing structure at Springwood to improve both customer service and staff training opportunities, and we are confident that Drue, with a background in international business, will help drive our company further ahead.

Our staff all have the opportunity to earn bonuses through their commitment to excellence, and this year over \$10,000 was paid to staff as bonuses for performance over and above minimum requirements, clearly indicating the quality of our people and their commitment to their community.

As I mentioned before, the commitment of our volunteer board is crucial to managing the business and achieving our goals. I would like to take this opportunity to thank Terry Skene, who retired as a director last November after nearly three years of service, for his valuable input and willingness to share his knowledge and time to assist. We have appointed two new directors this year, Richard Saad and Jennifer Townend. You will have received information about these people, and we are confident of the contribution they can make to the company if elected

Cathleen Wallis, our company secretary, has been appointed to the National Advisory Committee for the Community Enterprise Foundation – the charitable arm of Bendigo Bank, born during the chaos of the Tsunami last December. The posters on the wall give some indication of what has been achieved in a very short time – over \$1million has been provided to charitable causes since inception, both local and global. Cathleen's role is to assist the Foundation with knowledge of, and introduction to, local communities, groups, and organisations that can assist the foundation, or benefit from its services.

The final, and in many ways the most important, note that I want to discuss within the 'people' focus is you, our customers and shareholders. During the year the Logan Community Banks attracted 2,715 new customers, and grew the value of business managed by 19%. This has been achieved despite the downturn in the housing market, and some acutely sharp competitor pricing. As expected, home lending fell during the year, whilst deposits and other business rose.

The company has therefore improved its financial position despite a tougher market; however we as directors are still not satisfied with this level of growth, as we understand how much more can

be achieved with a greater participation from the Logan community. 14,500 accounts represent approximately 8.5% of the Logan population holding an account with their own bank. To my mind, this is not nearly enough, and needs to be substantially increased to provide the level of community contribution that we aspire to. I fail to understand how any shareholder, or community member, can choose not to utilise the community bank, knowing that their use of these essential and competitive services will help their local community.

Further, prior to this meeting I have investigated the take up of accounts by shareholders, and have been shocked to realise that not all shareholders are customers. This to me is incomprehensible, and the board will be directing energies towards rectifying this deficit immediately. The issue of dividends is dear to all shareholder hearts, and the personal take up of banking services is an essential step towards achieving these. I encourage you to talk to your families and friends and fellow shareholders, and urge them to ensure the healthy return of profit by using as many of our services as possible.

The company has been trading for just over two years as at the date of the Annual Report you have recently received. Profit/Loss projections noted in the prospectus for the end of the second year of trading have been exceeded despite the downturn in the market previously noted. Income was down 4.8% from the projected figure, and expenses were down 5% from the projected figures. Additionally the closure of Loganholme branch for a month during renovations impacted profitability. Adjusting the results for the one off cost of the Loganholme refit resulted in a 94.3% improvement in bottom line figures from prospectus projections.

This is in line with our results from the 2002-2003 financial year, as this year we improved our revenue 21% over the previous year, and reduced our expenses (un-adjusted) by 14.83% during the same period. This is an 83% improvement over last years' results, and sees us well on track to achieve our goals this financial year.

The strong cash position of the company has allowed the board to now consider expansion opportunities, to fulfil our commitment to provide services to all Logan residents. To this end we have recently installed an ATM in the Parkland Plaza shopping centre on Ewing Road at Woodridge, and if the use of this machine warrants further services, we will progress to an agency, and hopefully, to a full banking presence.

Additionally, we are investigating other sites both within the Logan geographic boundaries, and sites that service Logan community members outside these geographic boundaries. Expansion opportunities are subject to due diligence, incorporating financial returns, identified risk factors, and community benefits as items prior to any decision to proceed.

The value of shareholders investment in the company has improved in line with the increases in revenue and reduction in expenses from last financial year. Last year the value of shareholders investment stood at negative 17 cents per dollar, correctly reflecting the substantial set up costs for the company. This year the value of shareholders investment sits at negative 3 cents per dollar, a significant improvement.

It is important that these values are recognised by shareholders as an accounting standard, reflecting the profit or loss position of the company, and are not related to the sharemarket, any trading that takes place there, or the price at which any particular shareholder is willing to sell their

shares at any point in time. The sharemarket is an autonomous entity facilitating trade between investors, and the directors are not in control of this market or the price at which any trade takes place. It is also common that shares in a company will fall in value on the stock market prior to a dividend being declared, and that this should not be taken as an indication of the long term value of the company. I wish I had bought shares in BHP when they were 50 cents – they are now over \$21.00, or even Bendigo Bank shares, which have risen by 14% this year alone!

Further, it is also important that shareholders understand the restrictions placed on the company by Australian Law, which under the Corporations Act 2001 forbids the payment of dividends to shareholders if these dividends are not paid from trading profits. In other words, a dividend cannot be paid to shareholders from retained capital; the company must make a profit before a dividend can be paid. This is the sole reason that shareholders have not yet received a dividend from their investment in Logan Community Financial Services Ltd, and is consistent with the company prospectus, which clearly stated in chapter 5, risk factors, that

'Based on the forecast results set out in Section 4 above, it is not envisaged that the Company will be in a position to pay any dividends prior to the financial year ending 30 June 2006 and there is, of course, no certainty of any dividends after that time.'

The directors are fully committed to bringing the company into profit during this financial year, however the Directors cannot make it happen alone, it needs all the shareholders to get behind the Bank and transfer their business to the community bank to make it happen, and to encourage their friends and family to do the same.

Should profit be achieved as budgeted, shareholders are then likely to receive the first dividend from their investment. Other profitable community bank companies within the network have paid nearly \$3million in dividends to their shareholders, and most of these have been in operation for a minimum of three years prior to paying these dividends. A chart is displayed illustrating these payments. Thus the company is in line with similar organisations across Australia who have paid dividends after achieving profits.

The third focus of the company is Planet – the response to the needs of the local Logan Community in which we operate, and the response to the needs of the global community as citizens of the world.

A survey was conducted of shareholders views by the company in the edition 4 newsletter released in January to identify where shareholders felt that monies when distributed should be allocated, and would do the greatest good for the community. Further, the question was asked whether allocated funds should benefit smaller local groups, or primarily the whole of the Logan community. The results of this survey indicated that shareholders wanted funds to go to areas that primarily supported the whole of Logan, which suggests a strong community spirit exists within the community. The directors have taken on board the feedback from this survey, and from other sources throughout the year, and will incorporate this when developing the new profit distribution model and documents over the next period.

During the year over \$2,000 was spent from retained capital towards local sponsorship, provision of funds for disadvantaged youth, and funding of schools and youth groups, and more than \$10,000 has been allocated in the 2005-2006 budget for sponsorship and community needs. This

money is in advance of the company reaching profit and is allocated from the strong retained capital position of the company. The company is now in talks with major local stakeholders to determine the best allocation of these funds, and to investigate major events that can benefit the whole of Logan prior to the company attaining trading profits. The time and energy dedicated to these projects by directors, managers and staff is entirely voluntary.

Shareholders and customers also showed an enormous generosity of spirit during the Tsunami and Eyre Peninsula fire disasters that struck late last year, with local residents alone donating over \$4,784.88 at branches across Logan. Again, this illustrates the global as well as local focus of the Logan community, and shows the ability of the community bank and Bendigo bank network to respond quickly to emergencies and disaster relief efforts. Thank you to all those people who donated to these causes. Some of the monies donated have assisted the people in the posters you see around the room today.

In closing, I would like to thank those organisations and people, who have contributed over and above to the community bank movement in Logan – the unpaid directors of the company, (both current and former), the people at Bendigo Bank who are always available to assist, and especially Tammy White; the Logan Council, The Albert and Logan News team, and too many local business people and residents to mention by name.

Finally, I thank you, our shareholders, for your support, for your business, and also for your queries and challenges to us which raise the bar on our performance and make us stronger. I urge you to strengthen your company further through bringing customers, families, friends, and associates to the community bank as customers, thereby ensuring the success of your company, and the enrichment of your community.

Thank you

A handwritten signature in black ink that reads "Colin A. Wilson". The signature is written in a cursive, flowing style.

Chairman