

NEWSLETTER

Dear Shareholder.

Some eleven years ago, thanks to the investment made by members of the local Community, the Bay & Basin Community Financial Services Ltd (the Company) was established, and a Franchise Agreement was signed between the Company and Bendigo & Adelaide Bank Ltd (BABL).

This resulted in the establishment of the Sanctuary Point and Districts Community Bank.

The Company had three major goals:

1. First and foremost, it was to provide banking services to the local community,
2. Secondly, it was to provide a reasonable rate of return to its shareholders, and
3. Thirdly – and most importantly - to return part of the profits to the community in the form of Grants, Sponsorships and Donations.

While the financial market within which the Company operates, have changed, the Company's goals have not. However, the changes have resulted in the company facing some interesting challenges now and in the future, including:

- a. the renewal of the Franchise Agreement, and
- b. the imbalance between Deposits and Loans



Trading Results for the Nine Months to 31st March 2015

The highlights from the unaudited financial statements for the nine months ended 31 March 2015 (the half yearly accounts have been audited and registered with ASIC) are:

- The Company's Book of Business has grown to \$77.6 million dollars.
- This is comprised of \$58.3 million in Deposits and \$19.3 million in Loans.
- While the Book of Business continues to grow, most of the growth is in Deposits and the current continuous reduction in interest rates has a direct negative impact on the Company's growth in earnings

Income & Expenditure

	2015	2014
Total Revenue	541,726	509,672
Total Expenses	473,567	464,679
Net Profit before Taxation	68,159	44,993
Net Profit after Taxation.	45,364	28,494
Cash Surplus before Amortisation & Tax (Note: the cash surplus includes extraordinary items)	87,726	63,353

Balance Sheet

A snapshot of the Balance Sheet follows:

	2015	2014
Current Assets	442,377	431,118
Current Liabilities	99,954	134,587
Working Capital	342,423	296,531
Fixed Assets	185,043	205,346
Net Worth	527,466	501,877

Issued Shares total \$660,000. The Net worth is still less than that figure. Your Board in cooperation with BABL, continues to seek ways to improve and accelerate earnings.

The Company is required by its Franchise Agreement to maintain a certain level of cash reserves equal to three months expenditure. Your Board had resolved to increase that level in recognition of the difficult trading environment following the GFC, and has maintained that level in current times as margins are pressured in the current economic climate.

Shareholders will note that the profit from the banking business has increased significantly which is due to tight control of expenditure on the one hand, and increased revenue generation through a concerted loan promotion effort, with the cooperation of BABL.

It should also be noted that the current surplus (which is subject to normal year end charges and provisions), will be reduced in the last quarter of the financial year when the Company will allocate funds to the Community Enterprise Foundation (CEF). The CEF was established some four years ago, and enables the Company to make a tax deductible donation to it, and subsequently, to request the CEF to provide funds for our Community projects. Donations, Sponsorships & Grants from the CEF are reported in the Annual Report.

Allocation between Shareholders Distributions and Community Contributions.

While the Company is proud of its participation in Community projects it is very mindful that its key function is to operate a vibrant, sustainable, and profitable banking business. However, it should be noted that while there is no stipulated limit within the Franchise Agreement on how much can be spent on Community related projects, there is a limit on how much can be paid in Shareholders' dividends and indeed by the Corporations Act.

Marketing Development Fund (MDF).

Though not part of the Franchise Agreement, to date BABL have provided \$50,000 annually to assist with the Company's marketing effort. Recently BABL advised that from July 2016, it will deduct \$12,500 per annum from the MDF as a contribution to a regional Collaborative Marketing Development Fund. While this will have some impact on profitability and marketing ability, this may be offset by reducing the Company's annual spend on direct advertising.

Strategic Planning Workshop.

This Newsletter is one of the initiatives forthcoming from the Boards Strategic Planning Workshop held late last year. Other initiatives included:

- Work closer with BABL regarding marketing initiatives
- Identified ways to improve the current business model to improve the Company's Balance Sheet and profitability.
- Develop a closer relationship with Nowra & Milton Community Bank branches to benefit from joint projects and where possible, economies of scale.
- From time to time, review current Cash Reserves Policy in the light of prevailing economic conditions

Going Forward.

Finally, the Board hopes that this Newsletter will prove an informative and welcome addition to the Yearend Financial Reports that have been issued in the past, and it is hoped that it will become a regular mid-year publication going forward.

The Board of Bay & Basin Community Financial Services Limited wish you all the best and thank you for your support.