

# FINANCIAL YEAR IN REVIEW 2015-16



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Personal banking



# CHAIRMAN'S REPORT

## Welcome to the B&E Personal Banking 2015/2016 Year in Review.

I am pleased to report a year of sound results for B&E in the key areas of profit, growth and loan book quality. A highlight this year was a significant uplift in loan approvals and loan book growth reflecting the work we have done over the past 18 months to build a platform for sustainable growth.

Our prudential ratios continue to be maintained well above the Australian Prudential Regulation Authority's (APRA) minimum requirements and within the Board's preferred operating range, which positions us well for future growth.

Specific details of our financial results are outlined in the financial performance section of this publication.

Stephen Brown, *Chairman*.



Clockwise from back: Colin (Mac) Russell *Director*; Sally Darke *Advisor*; Mark Nugent *Director*; Lyn Cox *Deputy Chairman*; Stephen Brown *Chairman*; Keryn Nylander *Director*; and Scott Newton *Director*.

### BOARD PROCESSES

The Board meets regularly and accepts responsibility for the overall governance of B&E, including the formation of strategic direction and policy and the review of performance against these goals.

The Board has established appropriate structures for the management of B&E including an overall framework of internal control, risk management and the establishment of ethical standards.

Workshops are held at various times throughout the year to discuss relevant governance matters, including strategic planning. This year, the Board held a major off-site review of strategy and mapped out a revised strategy for the next three years.

### INDUSTRY CHALLENGES AND FUTURE STRATEGY

The past year has seen owner occupied housing finance demand in Tasmania remain relatively stable while there was an increase in residential investment demand particularly in the Greater Hobart market.

First home owner demand eased during the year as the State Government grant for new homes was reduced but a subsequent decision announced in the 2016-17 State Budget to increase the grant is likely to boost demand next year.

Housing affordability has improved in the past few years due to historically low interest rates, with many customers taking advantage of low rates to accelerate loan repayments while overall, the arrears in our loan book is very low.

B&E has been serving the Tasmanian community for 146 years and we are the oldest member owned Authorised Deposit Taking Institution (ADI) in Australia still operating today. This is a remarkable milestone in itself and something that we are proud of. However, we recognise we must continue to appeal to a wide group of existing and potential new customers in the years ahead, who will require us to change and develop in line with their product and distribution needs.

The Board undertakes a regular review of the Company's performance and we believe there is still significant opportunity and a healthy sustainable future for B&E, provided that we continue to make the necessary changes within the business to respond to the dynamics of the external environment.

### BOARD OF DIRECTORS

The Board assesses its composition to ensure that it has an appropriate mix of skills, experience and qualifications on a regular basis.

All Directors and Senior Management are assessed on an annual basis to determine their fitness and propriety for the roles they are required to fulfil. The Board undertakes performance appraisals for each Committee and each Director annually.

The Board reviews its succession plan each year and upon any change in composition of the Directors.

### COMMITTEES

To increase its effectiveness, the Board has established standing committees. The role of each of these committees, together with a Committee Charter that sets out their responsibilities and duties, is documented in the Board's Charter.

The current standing committees are Audit, Corporate Governance, Remuneration and Risk.

### IN APPRECIATION

In conclusion, it has been a privilege to serve B&E as Chairman and I would like to extend my appreciation to our members and customers for their support and to my fellow Directors, our CEO Paul and his management team, and all of our employees for their continued commitment and hard work over the last 12 months.

In particular, I would like to thank Sally Darke for her outstanding service to B&E Ltd for more than 20 years as both a Director and in recent years, as a trusted Advisor to the Board. Sally will cease her Advisor role in August 2016 and we wish her and her family well in the future.

**Stephen Brown**  
Chairman



# CEO'S REPORT

At B&E we continue to enhance our position as a financial institution of choice in the Tasmanian market.

In our business, we are seeing fewer customers face-to-face as more customers interact online, which is consistent with what is happening in the wider banking sector. As a result, our focus has been to broaden our online capability and introduce new technology, products and services, while continuing to invest in the development of our people.

Our Retail Network continues to undergo changes as we improve our retail model. This year's sales results indicate that we are on the right path with a significant increase and growing momentum in loan approvals, average products per customer and insurance sales.

At the same time, we have invested substantial resources to review and improve all aspects of our lending processes. This project will be completed in the next few months. Early indications are that there will be significant benefits to customers from the changes that are underway.



Paul Ranson, Chief Executive Officer.

## OUR PEOPLE

I would like to acknowledge the continued commitment and effort of all of our people in delivering a high level of service and remaining focused on what is important and necessary to make B&E successful.

All retail operations and business units play a vital role in the provision of services to customers and in supporting the Company's performance overall.

### Key activities in the people, performance and culture space include:

- Changes in the Retail Network to support acquisition and to enhance customer relationships.
- Building additional capability within the organisation to support our growth strategy.
- Strengthening our risk and compliance function to enable us to respond efficiently to changes in regulation.

## TECHNOLOGY AND PROCESS IMPROVEMENT

We are continuing to invest in hi-tech products and services to meet our customers' evolving financial needs.

### New IT products and services we introduced this year included:

- Upgraded our core banking and internet banking software.
- Upgraded data communications to our disaster recovery site.
- Implemented new financial management software.

## OUR VALUE PROPOSITION

Our Corporate Strategy recognises that there are five key reasons why customers choose us. This is our Customer Value Proposition (CVP). A key part of our strategy is to improve these elements:

**Accessibility** – as a company managed within Tasmania, we recognise the importance of being accessible to our customers. Whether this is through face-to-face contact with our Retail Network, over the phone with our Tasmanian based call centre or via online channels, we offer and will continue to offer a high level of accessibility.

**Relationships** – one of the core reasons for our success is our culture of building strong relationships with our customers. We are committed to maintaining and enhancing this aspect of our culture.

**Community** – B&E has been part of the Tasmanian community for 146 years and during that time, we have actively supported the community through local initiatives, sponsorship and employment. As a customer-owned financial institution we remain committed to supporting the Tasmanian community.

**Value** – providing value through competitively priced products with a range of great features is an important element of our CVP. This means that we need to strike the appropriate balance between the interests of our depositors and borrowers and make sure we price our products to support a sustainable future for B&E.

**Flexibility** – our long history in Tasmania gives us a deep understanding of the regional markets and their inherent differences. This enables us to be flexible with our approach to lending, a point of difference which has helped us seize numerous opportunities in the past and will continue to do so into the future.

## IN APPRECIATION

I would like to thank and congratulate the Board of Directors, Management and Staff for the outcomes and achievements this year, as outlined in the body of the Year in Review, and particularly for sustaining this performance over an extended period of time.

**Paul Ranson**  
Chief Executive Officer

**B&E Personal Banking Executive Team:**  
Kate Dean *Chief Sales & Marketing Officer*  
Natasha Wish-Wilson *Chief Risk Officer*  
Susie Russell *Chief Operations Officer*  
Gerald White *Chief Financial Officer*





# FINANCIAL PERFORMANCE

After tax profit was \$3.2M (2015 \$3.6M) which is a sound result in a sustained period of low interest rates. The profit result was underpinned by a focus on controlling interest margins and operating costs while actively growing our loan book.

Overall loan approvals for the year were \$139M which was an increase of \$35M or 33% on last year. While this growth has been assisted by investor lending in the first half, this trend has continued in the second half with a positive increase in market share of owner occupied lending.

Our loan portfolio grew by \$36M or 7% to \$583M, a significant achievement in a highly competitive and challenging environment. The loan book grew each month and was underpinned by B&E's excellent loan retention.

Total assets grew by \$23M or 3% to \$728M. Asset growth was in line with our short-term growth

targets as we proactively managed liquidity to reduce our investment portfolio to support growth in our loan portfolio.

We started and ended the year with a strong liquidity position. Total deposits increased by \$20M to finish the year end at \$655M with total liquidity at 30 June of 18.2% (2015 20.9%). Liquidity, both in total and high quality liquidity assets, remains well above the Australian Prudential Regulation Authority's (APRA) minimum requirement and within the Board's preferred operating range.

The quality of the loan book continues to be sound with further reductions in high LVR

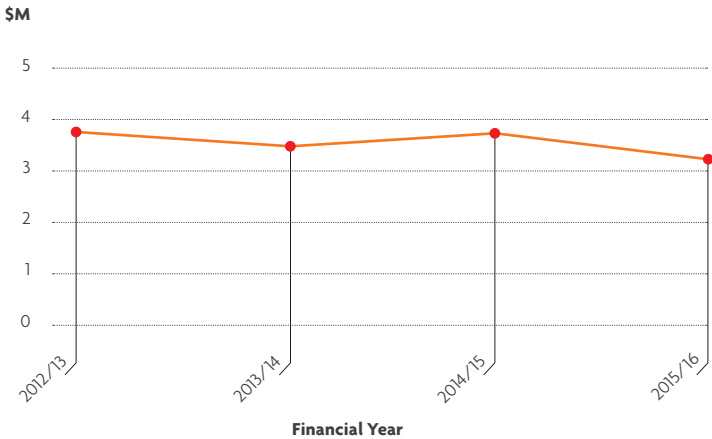
lending and low arrears. As a result of resolving some problem loans, we saw an improvement in delinquency (loans in arrears >30 days) to 0.29% (2015 0.83%) of our loan book, an excellent result.

Capital adequacy on a risk-weighted basis decreased from 19.06% to 18.66%. This decrease was due to a range of factors including: sound profitability and moderate growth. Capital adequacy remains well above APRA's prudential capital ratio and the Board's preferred minimum holding level. Net assets increased by \$3.2M to \$63.6M as at 30 June (2015 \$60.4M).

## GROWTH



## NET PROFIT AFTER TAX



## SUMMARISED BALANCE SHEET AND PROFIT AND LOSS STATEMENT

| STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2016 | 2016 \$'000 | 2015 \$'000 |
|---|-------------|-------------|
| Interest revenue  | 30,840      | 32,678      |
| Interest expense  | (14,709)    | (16,793)    |
| Net interest income   | 16,130      | 15,885      |
| Other operating income  | 2,320       | 2,297       |
| Net operating income before expenses                              | 18,450      | 18,182      |
| Total operating expenses  | (13,861)    | (13,020)    |
| Profit before income tax  | 4,590       | 5,162       |
| Income tax expense  | (1,373)     | (1,545)     |
| PROFIT AFTER INCOME TAX   | 3,217       | 3,617       |

| BALANCE SHEET AS AT 30 JUNE 2016                  | 2016 \$'000 | 2015 \$'000 |
|---|-------------|-------------|
| ASSETS  |             |             |
| Cash & deposits with other financial institutions | 132,916     | 146,000     |
| Loans to clients                                  | 582,801     | 546,645     |
| Property, plant & equipment                       | 10,221      | 10,819      |
| Other assets                                      | 1,929       | 1,409       |
| TOTAL ASSETS                                      | 727,867     | 704,873     |
| LIABILITIES                                       |             |             |
| Deposits  | 655,097     | 634,741     |
| Trade and other payables                          | 5,006       | 5,366       |
| Employee benefits                                 | 1,152       | 1,371       |
| Subordinated Debt                                 | 3,000       | 3,000       |
| TOTAL LIABILITIES                                 | 664,254     | 644,477     |
| NET ASSETS  | 63,613      | 60,396      |
| EQUITY  |             |             |
| Reserves  | 63,613      | 60,396      |
| TOTAL EQUITY                                      | 63,613      | 60,396      |



# PERSONAL BANKING FOR ALL OUR CUSTOMERS

We are a proud customer-owned financial institution, not only providing exceptional service, but offering a complete range of banking products and services that you'd expect from a major bank.

Our uncomplicated personal banking is reflected in our customer satisfaction. We listen to our customers and make managing their finances easy.

This year, like other years, has presented many local and global challenges.

The Reserve Bank of Australia reduced the official cash rate to an all-time low in May 2016. We consider many factors when reviewing lending and deposits rates. We aim to balance the interests of borrowers and depositors and provide value for customers, as opposed to profit for shareholders.

Our products and services are reviewed regularly to ensure we are continuing to offer value for money and are competitive in the market.

This year we continued with our low rate, no frills home loan and in May 2016, we offered our customers a 2 year fixed rate FlexiDiscount home loan special. In addition to this, customers were able to take advantage of our 'No upfront fees' offer for owner-occupied home loans over \$100,000 with a Loan to Valuation Ratio (LVR) of ≤80%.

Our VISA Credit & Debit Cards remain among the most competitive in the market after a review in December 2015. Interest rates and fees are now favourably aligned with similar competitor products and continue to represent good value to our customers. The changes were effective 1 March 2016.

## PROVIDING PEACE OF MIND

Every year there are more reports of people falling victim to scams. With more of our interactions taking place 'online' it is becoming increasingly difficult to keep track of our personal information and avoid scam attempts.

As an organisation, safeguarding our customers' personal information is fundamental to the way we do business. Our privacy policy sets out how we handle our customers' information and we are also bound by the Privacy Act.

Our state-of-the-art fraud system involves monitoring card based activity to ensure it is legitimate and to identify transactions that appear unusual or suspicious. Monitoring is undertaken 24 hours a day, seven days a week and provides for the earliest possible detection of card-based fraud.





AT B&E, WE SEE OURSELVES AS BIG 4. IN FACT WE'RE BIG FOR ALL SORTS OF THINGS.

We are big for amazing service. We're big for amazing smiles. We're big for not just knowing your name, but knowing your financial goals and dreams too.

We're also big for home loan rates that match anyone, with all the features and benefits you'd expect from a Big 4 bank.

Except we're not a Big 4 bank. We're B&E and we can help you make the switch, because we're big for banking without the big banks.

Talk to us today.



# IN THE MARKETPLACE

Capitalising on the success of our 'You & me, B&E' brand strategy, we launched a new marketing campaign in early May 2016. The campaign draws on the market strengths of the Big 4 banks, while clearly defining our competitive advantage as a customer-owned financial institution.

The campaign is live across a number of channels including television, print, online and in-branch point of sale.

A Brand & Market Study (2015) found that we have a strong brand awareness within the Tasmanian market, with 8 out of 10 consumers aware of our brand. Building on this awareness, we were able to increase our share of the number of owner-occupied home loans this year by 25% and grew our loan book by 40% - an excellent outcome in a highly competitive environment. We continue to build awareness through mainstream advertising and sponsorship activities, and through other non-traditional marketing channels.

Social media is playing an increasingly important role in how we communicate with our customers. We now have a presence on Facebook, LinkedIn and Twitter. Next year will see a greater focus on lifting the profile of B&E, through creating quality and useful content that will be delivered through targeted mainstream media and credible trustworthy social media channels and our own online blog.



Main photo: Sandra & Lisa from our Glenorchy branch.

## HIGHLIGHTS FROM THIS YEAR'S SIGNATURE SPONSORSHIP EVENTS ...

2015 marked the 31st year of the Burnie Ten. A field of 2600 runners and walkers lined up for the 10km race. Another 450 chose to take part in the inaugural 5km race.

On Valentine's Day this year, over 3000 elite runners, joggers and walkers charged across Hobart's Tasman Bridge to compete in the 7th B&E Hobart Run the Bridge. With runners of all ages and fitness levels participating, it has become one of Tasmania's great community events.

After the turmoil earlier in June due to the floods, it was a perfect yet very chilly morning that greeted the 1500 elite athletes, runners, joggers and walkers who took part in the 10th anniversary of the B&E Tasmanian Running Festival (previously known as the B&E Launceston Ten) on Sunday, 12 June.



# SUPPORTING THE COMMUNITY

Tasmania was hit by severe floods in early June 2016. We were able to support our affected customers by offering a range of financial assistance measures. Our insurance partner, CGU, was active on the ground to assist those in need.

Alongside this, we partnered with the Examiner Newspaper to raise funds to assist our fellow Tasmanians affected by the crisis. Over \$42,000 was donated to The Examiner and B&E Flood Relief Appeal and was distributed to local charities, St Vincent de Paul, Raw Tas, City Mission, the Benevolent Society and the Salvation Army.

We were pleased to be able to support the Southern Cross TV Give Me 5 For Kids Telethon again this year. The 2016 GM54Ks Telethon raised over \$500,000. B&E contributed \$5,000 and provided staff support for the event. The money raised, funds much needed medical equipment for children's wards across the state.

At a grassroots level, B&E continues to support many smaller community organisations. Our staff, across our state-wide Retail Network, are proud to engage directly with groups ranging from sporting clubs to charity organisations.

This year, we encouraged customers to convert from paper to electronic statements. As an incentive, for every eStatement conversion, we donated a dollar to a not-for-profit organisation. Over \$3,500 was distributed to numerous charities state-wide.

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