

Growing together

Supporting communities, sharing success

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THE BENDIGO SHAREHOLDER
NOVEMBER 2004

Volume 9 – Issue Number 4

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Bendigo Bank

139th Annual General Meeting

25 OCTOBER 2004

CHAIRMAN'S ADDRESS

MR RICHARD A. GUY OAM

(An edited text)

As is usual in my address, I will today report our results for financial year 2004 and evaluate the prospects that lie before us. However I wish to depart from the norm for a couple of moments to make a significant announcement, the relevance of which will become clear.

I am very pleased today to announce the imminent launch of Bendigo Bank's Community Enterprise Foundation framework, the newest of our community building initiatives.

Community Enterprise Foundation is an innovative gifting structure to benefit local communities across Australia. It will be able to accept gifts from individuals, estates, community enterprises (such as our Community Banks), corporations, and even government, for distribution in a tax-effective way. Where it will differ is that people will be able to donate to the Foundation knowing that an advisory committee from their own community can recommend how the money is distributed. Bendigo Bank will also be able to link its own gifting and community support through the Foundation. Our aim is to grow a corpus – a pool of money that will generate income in perpetuity to ensure a sustainable and growing source of funding for building better communities.

All of our community engagement activities are investments in building a sustainable business that can generate assured earnings for shareholders over the long term. Through being relevant in our communities, we will attract customers inclined to buy from us and to stay with us. Our success to date has not happened by accident: we developed a clear strategy and we invested the money required to implement it. We still do – as Community Enterprise Foundation shows.

But what of the return on those investments?

We have always said that ours is a revenue generation strategy, and in the past year shareholders have seen the continuation of the strong momentum we have developed. In the past five years we have more than doubled the Bank's total net revenues, which this year exceeded \$400 million.

And this has translated into growing profits. The increase in our after-tax profit for 2003-04 was \$20 million, or 35 per cent. This included a one-off boost of \$6.6 million, mainly attributable to the sale of our shareholding in Cashcard Australia.

I should stress that owning shares in other companies is not a normal part of our business, although occasionally we do take strategic holdings, as we have done with IOOF. This investment has increased significantly in market value. IOOF provides administrative and product support to our Wealth Solutions division and is an important strategic ally. Where we have the opportunity to support our alliance partners and build relationships with service providers – and in particular where our connection will add value – then we will continue to take strategic positions from time to time.

In the case of Cashcard, we were one of its foundation shareholders and we helped build a successful financial services business, the services of which we still use. Bendigo Bank shareholders can be well pleased with the return they received on that investment.

As I said, the proceeds from the sale of those Cashcard shares were included as one of a number of one-off items in our 35 per cent profit increase. But even on 'normalised' figures – that is, excluding those one-off items – the bank's profit still rose by 24 per cent, to \$73.2 million. This was the fourth successive year in which we increased profit by more than 20 per cent.

I would like to reflect for a moment on some of the newer businesses in our Group.

Our expansion into Queensland – through our merger with First Australian Building Society – is now four years old and our achievements are significant. We completely remodelled the old First Australian business, opening 15 new branches, refurbishing 18 branches and rebranding the entire network as Bendigo Bank. We upskilled staff and refashioned the head office to become our national loans centre. The Bendigo brand was entirely new to Queensland, which is probably the most competitive banking market in Australia. Yet despite this challenge, and the enormity of the work we faced, we are thriving. John Goddard and his strategic unit, and our entire retail team, have positioned our brand well and business is flowing in the door. Already, our Queensland business has increased its contribution to Group profit four-fold.

(When we speak of the "contribution" our business units make, shareholders should understand this is not direct bottom line profit because there are some head office costs not yet deducted.)



Leonie Hartnett travelled from Melbourne and appreciated the chance to speak with our Chairman, Richard Guy.

Queensland might be the most competitive banking market, but NSW is the biggest. Led by demand for our Community Bank® model, we have now established a beachhead of 37 branches, mainly in Sydney and southern NSW. Eleven new branches have opened in the past 15 months. We continue to expand that network, with two company owned branches in the north of the State and two more to open in regional cities this financial year.

One of our strategic strengths has been our willingness and ability to partner other organisations to service markets in which they have connections that we do not. Rural banking is one such market and we developed Elders Rural Bank (ERB) as a joint venture with Futuris Corporation. ERB's 2004 profit was an increase of 15 per cent, to \$21.8 million, of which we received half. ERB this month received its first investment grade credit rating, of BBB-minus, from Standard & Poor's. Like all businesses operating in the rural sector during this prolonged dry spell, ERB faces challenges, but it has positioned itself well in the short term.

In Tasmania, we partner Tasmanian Perpetual Trustees in bringing an element of locally owned banking to that State through Tasmanian Banking Services (TBS). From humble beginnings of one branch in Burnie, in 2000, TBS now operates through six branches and is now making a contribution to our profit. We are also encouraged by the success of our first two Community Bank® branches in Tasmania and we have good prospects of further expanding that network.

Perhaps one of our unsung – or little sung – success stories has been the Ballarat-based Victorian Securities, which joined our Group in 2000. At that time, 'Vic Securities', as we fondly know it, was already a successful community based organisation built under the watchful guidance of local solicitor and MP,

Murray Byrne. Murray has now stepped back from the business but he will be delighted with its progress under the Bendigo umbrella. Vic Securities' pre-tax profit contribution last year increased by 55 per cent, but even more important is the way in which its good work has positioned the Bendigo brand in western Victoria. It is an important market in which we have been historically under-represented, but that is now changing. Already, we have shifted our north-western regional office to Ballarat and we will progressively build our business from the platform established by Vic Securities and the Bank's own Ballarat branches.

All of these 'new' businesses required investment and commitment to begin, but all are now well established.

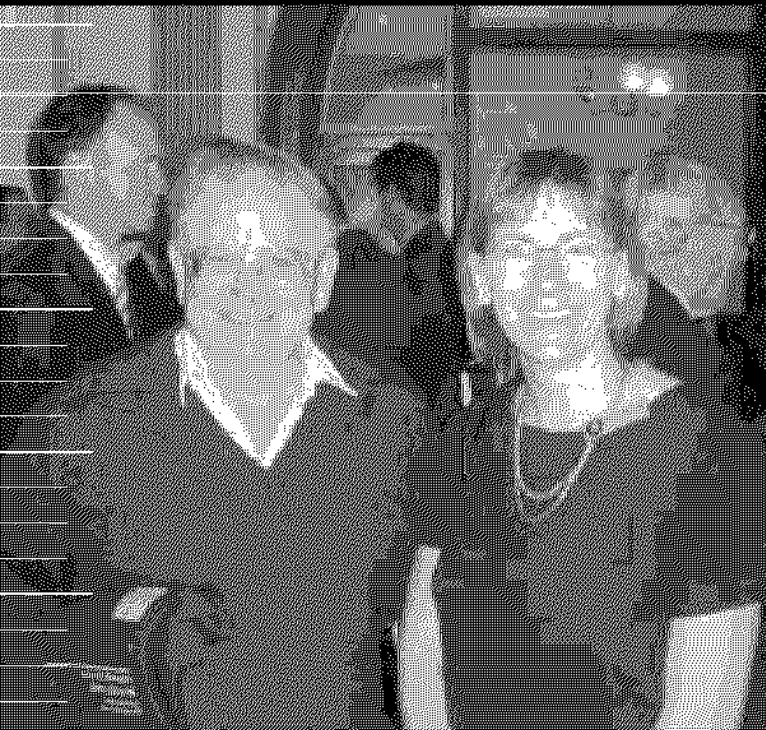
I turn now to review the improvements we have made to the key indicators of your Company's performance.

Our normalised return on equity increased by almost three per cent in three years. (The actual ROE number achieved last year was boosted by those one-off items I mentioned earlier.)

Earnings per share, too, grew strongly, up last year by 18 per cent on normalised figures. This is the measure dear to your hearts, shareholders, because your dividends are paid from this.

A little further progress was made on reducing our cost-to-income ratio, although the higher-than-expected cost of complying with the new Financial Services Regulation Laws precluded a more significant improvement.

Shareholders will have read criticisms we made about FSR in the Concise Annual Report. I will not dwell on them again today except to note we continue to make representations about the lack of benefit to banking customers and the disproportionate compliance cost burden on smaller organisations such as ours.



Robert Abell, of Canberra chats with Bendigo Bank director Jenny Dawson.

Despite this unnecessary impost, we improved performance ratios, and that enabled us to more productively employ the capital you contribute to the business.

We are also actively managing this capital to ensure we do not take on more than is necessary. One example of this is our sale of loans into securitisation structures. This removes these loans from our balance sheet and although we continue to receive revenue from them, it means we do not need to apply capital to them. Thus, while the assets on our balance sheet grew by \$2 billion, a further \$438 million in loans were made but then securitised. This helps us to maximise the return on the capital employed.

As our earnings and performance ratios have improved, we have made steady progress on increasing your dividend. Your directors declared total dividends for financial year 2004 of 40 cents per share, an increase of six-and-a-half cents, or nearly 20 per cent. Several shareholders last year asked us why our dividends were paid later than some other companies and, in response, we are now paying your dividend a month earlier. We do listen to you.

That growing dividend has underpinned a steady upward trend in our share price, which has roughly doubled in four years. A *Bulletin* magazine ranking of the top 50 performing companies ranked us 28th over five years in 'sustainable shareholder return' and that is a good indication that our strategy is on track. As measured by market capitalisation, we have flirted with Top 100 company status on the ASX, although more often we are just outside that group.

But of course that is all in the past. I am sure you are all much more interested in what lies in store for your company.

There can be no denying that the economic climate in recent years has been kind for all companies, but banks in particular. Buoyed by a long period of low interest rates, real estate has enjoyed a boom propelled by record borrowing. Our own lending approvals last year rose by 26 per cent to \$6 billion, and that's on the back of big increases in previous years.

But even while the economy remains buoyant, we doubt that current debt levels are sustainable. There is market speculation about possible interest rate adjustments, and rising oil prices have added to speculation about the economy. We have therefore positioned our balance sheet accordingly. Our provisioning is strong, our bad debts are at their lowest level and our credit practices are prudent.

We also face competitive pressures. There is fierce competition in our industry and interest margins for all banks remain under pressure. We are no exception, although the strength of our brand has helped us to maintain our margins at a healthy level to date. You will, however, see some pressure on our margin while this competition persists.

You will know we also pay to our Community Bank® branches a share of the margin on business they write. These branches are growing in number and business volumes and so are receiving an increasing proportion of the margin earned by the Bank. This will reduce our average margin. However, this is a healthy state of affairs, because each of these locally owned companies is paying its own costs and is generating business for us. We are happy for them to share the costs and the responsibility of providing services while splitting the income with us.

Summing up, we are a little more cautious about our external operating environment moving forward, and we signalled this at our profit announcement in August.

But let's not get too negative. Shareholders should bear in mind key factors that, even in a competitive market, act to promote further earnings growth.

Firstly, there are returns still to come from investments we have largely paid for. In the past three years we have opened 97 branches and experience tells us they will continue to grow strongly for some time yet. And, of course, we will continue to open more branches – 30-plus this financial year and 100 over three years, which will in turn reach their own maturity down the track.

Our strategy also takes the view that sometimes our best interests lie in forming alliances with partners who can deliver more customers than we could alone. Community Bank® is an obvious case in point, but we have also invested in other alliances that are delivering growing returns, as outlined earlier.

Bendigo Bank will also continue to win new business because of the quality of our people and the service they provide. Whenever the reputation or customer satisfaction among banks is measured, we come out on top, however, our competition is improving in these areas and we must, too. This year we have increased our investment in our people and we are constantly improving our processes to make it easier for customers to deal with us, whether face-to-face or electronically.

We also expect growing contributions from our Wealth Solutions arm, built on the rock-like foundation of Sandhurst Trustees. Our trustee company might have been formed in the 19th century but today it is a 21st century business in all respects.

While it still performs many of its traditional trustee functions, it is also the linchpin of a growing investment and funds management business that operates through our branch network and its traditional connections.

Last year, Sandhurst grew its funds under management by \$400 million and Wealth Solutions' after-tax contribution to our earnings grew by 80 per cent, to \$13.7 million.

Towards the end of the financial year, we took steps to make our financial planners more accessible to customers through our branches. We also led the industry in changing the structure of remuneration for our planners. The new structure is driven by a greater focus on customer service, compliance, professional development and community involvement. This gives customers confidence that the advice they receive aims to meet their financial objectives. I am pleased to report that customers have responded favorably and our Wealth Solutions business continues to grow strongly.

We have taken the opportunity presented by favorable conditions to keep our balance sheet strong and this is a strategic advantage as we move forward. Very little expense is carried forward – we expense our investments in year one – and we have built healthy profit reserves. This is especially so for our information technology area, where we have expensed virtually all of our developments. This means that we are not only well positioned to cushion any downturn, but we also retain the capacity to support our continued expansion, or acquisitions should they come our way.

Finally, we continually add more value for the communities we serve – and this is the key element in securing our long-term sustainability. Our Community Bank® partners last year received \$50 million as their share of revenues from which to pay their costs, pay shareholder dividends and fund community projects. This money would otherwise have left their districts. Community Banks don't just return local banking to their communities, they are creating local jobs and spending money in their local economies. They are building their social fabric with profits from their banking. They will benefit from new services we provide – such as telecommunications and e-commerce. And, of course, they will shortly have their Community Enterprise Foundation to help them build a perpetual community chest. All this means we are becoming more and more relevant in those communities. We are not just another trader on the street – we are a contributor and we have people willing to advocate our business to their family, friends and neighbors.

This makes our Bank more attractive to prospective communities. Already we have had communities seek us out for reasons other than banking. Griffith and Coffs Harbour were attracted by our Lead On youth and community development program. We subsequently opened our bank branch in Coffs Harbour, and Griffith is not far behind. Other communities have sought our Community Telco solution and we expect to open new bank branches as a result.

The point is that our community building initiatives significantly increase the attraction of the Bendigo Bank brand.

That brand is now represented in 286 communities across Australia. One hundred and thirty-seven of those outlets are Community Bank® branches, and at some point this financial year more than half our branches will be locally owned franchises. This is compelling evidence that our strategy of focusing on good outcomes for customers and communities is working for all of us.

Others have noticed this, too. At last year's meeting here, I foreshadowed that our many competitors would not give us free rein to continue to broaden our network and grow our customer base and take market share from them.

Make no mistake, there are now competitors seeking to reposition themselves with communities. A number of financial services companies have plans to open branches, and one of the big banks recently announced it would open 80 branches over the next three years. To put that into perspective, we are a much smaller company, but we'll open 100 branches in the same period.

We are not afraid of competition. Bendigo Bank has built its current position in the most competitive banking climate Australia has known. Not only do we compete with Australian banks, but since financial deregulation, we also compete with overseas banks, retailers providing banking services, and a wide range of specialist financial providers including large and small mortgage brokers. Despite this, we have carved out a distinctive and unique identity that has broad appeal across Australia.

In the past six years, since beginning Community Banking, our branch and customer numbers have tripled – and demand remains strong. We had a net gain of 88,000 customers last year, and sometime in 2005 we should sign up our one-millionth customer.

Ninety of our 100 new branches in the next three years will be Community Bank® branches, and inquiries continue at a healthy rate. We believe we have established Community Bank® as the premium community engagement model for banking, but we do recognise the importance of continuing to build on those qualities that attract communities and customers to us. Community Enterprise Foundation is an important enhancement of the value we can provide in each community.

Your company has enjoyed a fruitful few years based on a unique banking strategy, a lot of hard work, and substantial investment to create a distinctive and relevant retail bank. We have every expectation that our success will continue, but every realisation that so too must the hard work and investment. There is no room for complacency.

Shareholder Questions

Shareholders had the chance to ask questions at the AGM or in response to the Shareholder Questions sheet inserted with the Concise Annual Report. We thank those many shareholders who availed themselves of these opportunities.

Many questions concerned services or branch access and these were passed on to our Retail Banking division. Answers to selected questions likely to be of wide interest appear below.

Q: Is the Bank planning another share purchase plan or rights issue in the coming year?

A: The last Share Purchase Plan was successfully undertaken during March to June 2004. We are not planning a share purchase plan or other capital raising such as a rights issue, however a share purchase plan remains one of our preferred capital raising options.

Q: What is the impact of the Employee Share Purchase Plan on earnings?

A: This is set out in Note 10 of the 2004 Concise Annual Report. The disclosure takes into account the dilutionary impact of share issues together with the profit impact of the interest-free loans provided under the Plan. The actual Earnings Per Share ratio for 2004 was 60.2 cents and EPS adjusted for the effects of the Plan was 60.9 cents. The report also discloses the benefit to the managing director and senior executives of the Plan's interest-free loan. This is calculated using the Bank's average cost of funds.

Q: Why is the Bank looking at owning the new Fountain Court property when industry norm is to lease freehold premises and not hold large tracts of freehold capital? Would it not be more prudent to shift this transaction off-balance sheet with an associated company, eg Sandhurst Trustees, and create a property trust? What is the status of the property trust/fund which was mentioned last year?

A: The Bank does not intend to own either the Docklands property or the Bendigo development. The Docklands freehold will be leased from the outset. It is intended that the Bank complete the Bendigo development and then assess the best ownership structure. A property trust is still under consideration.

Q: What about the \$70 million cost of the Bendigo development?

A: Whilst the lease expense for the Bank will increase, the cost will be offset by the cancellation of leases for buildings currently occupied by the Bank and efficiencies and savings created by the consolidation of departments into the Docklands and Bendigo locations. The new buildings provide capacity for an increase of about 40 per cent in staff numbers. It is estimated that additional rent will equate to less than one per cent of projected total Group costs when all buildings are occupied.

Q: Is there succession planning in place, both for the board and the Managing Director?

A: Succession planning is a major responsibility of any board of directors. One of the Managing Director's key performance indicators is to ensure he has succession planning for all of the key manager positions across the Group. As a board, we are continually reviewing our structure to ensure we have the appropriate blend of age and skills.

Q: What contribution does Community Bank[®] make to Bendigo's balance sheet?

A: All loans and deposits sourced through our Community Banks and alliance partners like Tasmanian Banking Services form part of the Group balance sheet. At 30 June 2004, Community Bank[®] loans represented \$2.1 billion (22 per cent) of total Group loans, and deposits represented \$2.8 billion (27 per cent) of Group deposits. With the planned continued growth in Community Banks (30 per annum), it is expected that these proportions will increase into the future.



*Clarenda O'Brien, at Bendigo,
with director Kevin Hodono.*

News Briefs

Privileges relaunch

Shareholders will soon receive a relaunched Shareholders Privileges package detailing pricing and other benefits to which individual holders of 500 or more shares are entitled. We urge you to evaluate these offers and to support your Company with your banking business.

A greener Concise Annual Report

To minimise the impact of printed material on the environment, our 2004 Concise Annual Report and this newsletter were printed on 100 per cent chlorine-free paper. This is bleached without the use of chlorine gas, which significantly reduces toxic emissions produced by the paper-making process and has a neutral pH level (acid-free). The inks were based on renewable vegetable oils (flaxseed, soy beans and sunflower seeds).

Board on the move

The September board meeting was held in Brisbane, continuing the board's practice of holding meetings outside of Bendigo. Cities/towns in which meetings have been held in recent years include Geelong and Traralgon in Victoria, and Cairns, Brisbane, Ipswich and Toowoomba in Queensland.



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