



Bendigo Bank

SHAREHOLDER QUESTIONS OF GENERAL INTEREST ANNUAL GENERAL MEETING HELD ON 31 OCTOBER 2005

Question: Preference Share Issue - “Ordinary shareholders were encouraged by the chairman to buy preference shares – even to sell ordinary shares to do so. The settings on them meant that \$90m of tier one capital was obtained cheaply but the target was not reached and there was no opportunity for the Bank to benefit from over-subscriptions. It’s my understanding that the issue has been strongly supported by Bendigo Bank shareholders but poorly supported by the rest of the market and the Bendigo Bank directors (who mainly bought token amounts). If the company wanted loyalty of its shareholders to help increase their tier one capital why couldn’t they have offered a better deal?”

Answer: The preference share offer provided shareholders with an opportunity to diversify their investment in the company. The prospectus was subject to external legal review to ensure the document complied with applicable disclosure obligations and did not contain any advice in respect to dealings in the Bank’s ordinary shares. The terms of the preference shares were determined on the basis of the prevailing market environment and guidance of a specialist advisor engaged in respect to the transaction. The offer was purposely structured to provide our shareholders, and customer base, with a priority in respect to applications.

We were pleased, given the prevailing interest rate environment, that we received shareholder and investor support to the extent of \$90 million. The offer terms did provide that the Bank would accept over-subscriptions of up to an additional \$25 million.

A regulatory limit of 2% (representing \$200,000) applied to the amount that directors could apply for. Unlike the Bank’s previous convertible note and capital note offers, the preference share offer represented a different style of security, similar to other “income securities” in the market. The offer represented a targeted capital raising transaction focussed on improving the Bank’s earnings per share ratio.

Question: Discrepancy between profit increase and EPS increase – “The discrepancy between company profit increase of 19% and earnings per share increase of 12% does concern shareholders. In the report you claim that the refinement of capital management should help to reduce this discrepancy. The further expansion of the Bank by the opening of new branches and the building program will probably further increase subordinated debt. Under these circumstances can shareholders expect next year that earnings per share will move closer to company profitability?”

Answer: Leading up to the 2005 financial year-end, the Bank implemented initiatives to improve the Bank’s EPS ratio including an on-market share buy-back and the preference share issue. These transactions were purposely implemented to reduce the discrepancy raised. The Bank will continue to actively manage its capital requirements and monitor further opportunities to improve EPS performance.

The further expansion of the bank’s network, of which a significant proportion will be achieved through new community bank sites, will largely be funded through the capital raising programs of local communities seeking to establish a community bank franchise. New company owned branches will be funded by the Bank.

The Bank’s “Docklands” development represents a lease arrangement that will be funded through operational arrangements. The new Bendigo development will initially be funded through available funding arrangements, however, the Bank is exploring arrangements in respect to ultimate ownership of the building.

Question: “Is it likely that a further increase in tier one capital will be required? If so, can shareholders who are prepared to further invest in the company be offered a better deal?”

Answer: The Bank must comply with the capital adequacy requirements set by the Australian Prudential Regulation Authority and, on the basis of projected growth, will continue to require further Tier 1 capital.

The second installment under the terms of the preference share offer is scheduled, subject to the board’s discretion, on 15 June 2006. This will add a further \$45 million to the Bank’s capital base.

A key source of additional capital for the Bank is the dividend reinvestment plan. During the past two years, shareholders have also been offered the opportunity to participate in two share purchase plans. At this time the Bank is not planning any additional capital raising transaction but will assess its capital requirements, and the various options available, as part of its capital management arrangements.

Question: “Most of the profit increase this year came from Wealth Solutions and Elders Rural Bank. I understand that the Bank expects an increase in profitability next year of ten percent and that much of it will come from existing branches (many of which are less than 3 years old) growing and becoming more profitable. What is the evidence that there is such improvement in profitability in Bendigo Bank already? What is the expectation that Elders Rural Bank and Wealth Solutions will make another good contribution next year and into the future?”

Answer: A significant proportion of the Bank’s existing network is still in its early stages and maturity and, based upon our experience to date, continued business growth and profit contribution from this section of our network is expected. The Bank’s investment into Wealth Solutions has resulted in a diversified product offering facilitated through the Branch network which has resulted in increased wealth solutions sales which were not available in the past. Community Bank® now has 165 branches and almost \$7 billion in banking business. Community Bank® more than doubled the previous year’s profit contribution.

We expect that, subject to market conditions, Elders Rural Bank and our Wealth Solutions Division will again improve their contribution to the group’s profit performance during 2006.

Increase in director fee limit

Questions: Shareholders raised a range of questions and concerns in respect to the proposed increase to the aggregate non-executive director fee limit. The general sentiment of shareholders is represented by the following questions:

“Is the increase of Directors’ fees by 33% excessive and could be viewed as a ‘milking’ of shareholders funds?”

“There is a growing concern that many non-executive directors are on far too many boards and with continuing increase in their fees...? How do you justify a 33% increase in non-executive director fees?”

“Why is it necessary to increase the non-executive director fee limit by \$300,000 when the current rate of inflation is no where near that percentage?”

Answer: Following are extracts from the Chairman’s introduction to the agenda item presented at the 2005 Annual General Meeting:

It is the Board’s objective that the fees payable to non-executive directors should accord with market relativities, the responsibilities of your directors, and should be set at a level that enables the Board to attract and retain appropriately qualified and experienced directors.

Shareholder approval for the increase is sought on the basis of the following developments:

Firstly, since the 2000 annual general meeting, the total assets of the bank have increased by more than 150%, and the nature and complexity of the group overseen by your board has increased significantly. Also, the regulatory requirements applicable to the group's activities, and community expectations, have also increased significantly.

Since 2000, the Bank has grown to become one of Australia's top 150 listed public companies. We have established a national retail network, increased the group's distribution capability and product range and implemented a major IT investment program. The Bank has established a number of additional joint venture and alliance initiatives, developed its wealth solutions business and continued to invest into community development and engagement initiatives.

The past few years have also seen the introduction of many new regulatory requirements including the Financial Services Reform Legislation (which applies to six group entities), privacy legislation and the ASX Principles of Good Corporate Governance and Best Practice Recommendations.

To cater for these developments, and the Bank's commitment to good governance, the responsibilities and time commitment of the Bank's non-executive directors have been expanded.

Secondly, a retirement benefit arrangement for non-executive directors has been in place since before Bank conversion in 1995. In December 2003, your Board decided to grandfather the retirement benefit arrangement for the current Board members.

Following a further review of the options available, and developing market practice, the Board has decided that the non-executive retirement benefit entitlements will be crystallised as at 31 August 2005 and that no further entitlements would accrue to current non-executive directors. The Bank will continue to make statutory "SGC" payments of 9% applicable to director fees.

Thirdly, the board has established a board renewal process that is expected to be implemented over the next twelve to eighteen months. The chairman intends to remain on the board for a short term. It is planned that two new appointments will be made on a staged basis over the coming year. Mr Kevin Roache intends to stand for re-election at the 2006 AGM and retire at the AGM in 2009. The proposed fee increase will provide the board with the necessary capacity to appoint, if believed appropriate, additional directors to the board as part of the renewal process.

The board has obtained independent advice in respect to the level of non-executive director fees appropriate for the circumstances and responsibilities of the board and taking into account the board's decision to wind-up the retirement benefit arrangement, anticipated market increases in director fees and the decision to consolidate other fee payments.

The board proposes to establish a standard base non-executive director fee that will encompass all director duties including board committee, subsidiary and alliance board responsibilities.”

2005 Remuneration Report:

Questions: Shareholders raised a number of questions and concerns in respect to the agenda item regarding the 2005 Remuneration Report. The general sentiment of shareholder questions is represented by the following:

“Could the chairman please explain why there are no forward performance hurdles to receive a grant of shares under the employee share ownership plan when non-recourse loans are available for purchase of said shares?”

Answer: Following are extracts from the Chairman’s introduction to the agenda item presented at the 2005 Annual General Meeting:

Subsequent to the notice of meeting being mailed to shareholders, the Bank has lodged with the Australian Stock Exchange, a release advising proposed amendments to the Bank’s future remuneration arrangements.

We announced that the Bank is undertaking a review of the existing employee share plan which has been in place since before 1995. Following this review, and consideration of alternative structures that are available, the Bank plans to discontinue the current share plan in relation to new share issues.

A new plan will be introduced for general employees, and, a separate plan will be established for executives, including the managing director, which will include performance hurdles for the relevant executives.”

The review has been in progress for some time due to the potential impact of the introduction of the International Australian Financial Reporting Standards and the board’s awareness of market views and standards regarding performance hurdles and non-recourse loans associated with executive remuneration arrangements.”

Fraud:

Question: Shareholder questions were representative of the following: “Do you consider the Company has adequate internal controls in place to significantly reduce the likelihood of a major fraud in the future?”

We refer to the relevant media coverage and point out that the cost of the respective branch fraud was not in the magnitude as reported by the media, as

the circumstances of the incident were insured by the Bank. The Bank did incur a loss, associated with the policy excess limit, and the claim did impact on future premiums.

The nature and sophistication of fraudulent activities against the Bank are continually increasing. The Bank continues to invest in systems and initiatives to mitigate this risk.

The Bank has taken, and continues to take, action to guard against fraudulent behavior by staff. The Bank has implemented targeted projects, which are being overseen by the Bank's risk and audit committees, relating to fraud detection and prevention. The initiatives have a group wide focus, and include activities such as the recruitment of new staff, training and staff support, policy and procedures, auditing techniques and protocols, changes to work practices and workflows, investigative techniques and disciplinary responses. The Bank has also invested in strengthening its fraud risk management and internal audit functions.

It is emphasised that there are inherent risks associated with any system of risk management or internal control and that there will always be a risk that the system will not always operate as expected. Accordingly the Bank is not in a position to guarantee or fully safeguard against the future incidence of fraud of the nature reported.

Bank Account Debits Tax Loss

Questions: Shareholder questions were representative of the following: "The Bank disclosed a \$4.9 million specific loss attributable to Bank Account Debits Tax. Can the Chairman please explain this large loss of shareholder funds (which I assume would otherwise have been available for distribution to shareholders)?"

Answer: We disclosed and explained this event at our profit announcement in August 2005.

Like all banks, Bendigo was until recently required by law to collect Bank Account Debit Tax from some customer accounts and remit payment to Governments.

During the year, an internal review discovered an issue relating to the non-collection of so-called BAD tax from customers' accounts. We had failed to collect tax on some electronic transactions attached to cheque accounts.

We reported this to the respective State Revenue Offices, and implemented a process to fully investigate and audit the relevant transactions to ascertain our liability, and then remitted full payment. There is no further liability on the Bank.

The Bank could have elected to undertake recovery of the respective Debits Tax amounts from our customers, since BAD tax was levied on particular customer transactions and the Bank was only acting as a collection agent. The Bank chose

not to do so in the circumstances, as we reasoned that customers rightfully trust the Bank will complete its responsibilities on their behalf. The result was an after-tax loss of \$3.5 million against our year-end result.

The Board has sought, and obtained, assurances from management that appropriate actions have been taken to mitigate the risk of future re-occurrence.

Competition:

Questions: “Does the Bank’s management realise there may be more competition with the re-entry of some major banks into areas where the Bendigo Bank is thriving and have management plans to counter this perceived threat?”

“The ‘Big 4’ banks are reported to be considering re-opening small branches. Does the Board consider this to be a major threat?”

Bendigo Bank supports market competition. The level of competition across the banking sector has most likely never been more aggressive. The Bank is well aware of the increasing competition including moves by the major banks in respect to their retail representation.

The success of Community Bank in particular has increased awareness and admiration of Bendigo Bank. This has helped cement our reputation and deliver numerous business opportunities to us. It is hardly surprising then, that some of our competitors are now moving to position their businesses as being customer and community friendly.

In doing this, our competitors face the difficult task of winning back public support. While this is a difficult challenge for them, the major banks are formidable competitors and it would be foolish for us to ignore them.

Our strategy remains the same and this interest by our competitors in rediscovering communities and customers reinforces the importance of us continuing to push on. We remain committed to further building our connection with our communities, through Community Bank, Community Enterprise, Lead On, etc, to further increase the value we can add for them.

In 20 years time, all banks will be equally convenient, no matter where customers live. At the click of a mouse, customers will be able to bank anywhere in the world – in fact, you can do it now, but online services will improve even further. So why, in 20 years time, will our customers click on Bendigo Bank?

People will choose Bendigo Bank because they will recognize in it a powerful branch that has a strong emotional pull. They will know that Bendigo Bank adds value to them, and to their community. We are continually working towards securing their long-term loyalty because we are of more value to them than any other bank.

Independence:

Question: Shareholders have again asked about measures being taken by the Bank to prevent a takeover.

As with all listed public companies, there is always the potential of a takeover which must be undertaken in accordance with the requirements of the ASX Listing Rules and Corporations Act. In our view there are three main factors which will determine our continued independence:

1. Performance: notwithstanding our heavy investment program our performance has been improving steadily for a number of years;
2. Relevance: our core strategy is to build a franchise of committed buyers by being relevant to them as customers and to their communities;
3. Prospects: which we believe are excellent given the continued demand for the Bendigo style of banking.

We are not protected from takeover by Rules contained in our Constitution. Any takeover offer would however be subject to approval of the various regulatory authorities including APRA and the ACCC.

Products:

Questions: “Why is the “equity unlock” product (i.e. land mortgage repayable to the Bank on death of property owners) not universally available?” and “Is the Bank doing anything about reverse (or death equity)?”

“Why is the “equity unlock” product (i.e. land mortgage repayable to the Bank on death of property owners) not universally available?”

The new “Homesafe” product is only being released in a pilot launch in specific postcodes of Melbourne and Sydney, in order to test customer demand for the product and also determine investor interest. The Homesafe product is a completely new product on the market – there is nothing like it in Australia at the moment. It is not a ‘reverse mortgage’ product.

Once the product has been tested and attracted the necessary investor funding, we hope to expand the market more widely. We have been recording interested customer’s details so that we can contact them when the geographical restrictions expand.

“Is the Bank doing anything about reverse mortgages?”

The new “Homesafe” product is our alternative to the standard reverse mortgage products available on the market today. Whilst reverse mortgages are loan products with interest rates and growing balances, the Homesafe product is a contract of sale of a fixed percentage of the future sales proceeds of the

customers home. This gives certainty around the percentage of the home left for their beneficiaries.

Our second home equity release product is to be released tomorrow. This product (called "Lifestyle Income") is a short term (5 year) bridging loan which enables retirees to access the equity in their homes. The product pays customers a monthly income for 5 years and allows them to delay the decision of selling their home.

Share Offers:

Question: "Would the board consider another share top-up or bonus share plan?"

The last Share Purchase Plan was undertaken during March to June 2004. The Bank monitors its capital requirements on an ongoing basis. At this time the Bank is not planning a share purchase plan or other capital raising transaction such as a rights issue. The Bank will assess the various options available, including a share purchase plan, as part of its capital management program. The use of a share purchase plan represents one of the preferred capital raising options of the board.

Community Bank:

Question: "What support does BBL provide for Community Banks who are having trouble becoming profitable? Do you allow them to close?"

The Bank is fully committed to the progress and performance of the community bank network and has operated, since the launch of community bank, a dedicated unit which assists and supports our community bank network on a day-to-day basis. There have been instances where the progress of a community bank branch may not have initially achieved expectations, however, in these instances we will work closely with the local community bank board and branch manager to identify strategies to lift the branch's performance.

With 163 Community Bank Branches in operation we now have a significant collective of experience working with, and supporting communities of varying situations and circumstances. This experience becomes invaluable in providing new communities (and those facing adversity) with the necessary guidance they need.

Bendigo Bank's support mechanism also include a "mentor program" which comprises key Community Bank Chair-people (from experienced and stable sites) going out and working closely with their "sister sites".

We now have a range of alternative distribution models available to communities, including Sub-Branches, Customer Service Centres, and advanced agencies.

These are often utilized by communities as a cautious first step into the market, where the Bank and the community believe a full branch is not yet warranted.

The Bank would explore, in consultation with the local community bank board, all possible options (including alternate distribution models), to assist the community in retaining their local branch service before considering a community bank closure. Closure of a branch represents the last avenue to be considered.

Environment:

Questions: “Given the green or environmental stance of BBL, why not join a recognised greenhouse gas abatement program such as Greenhouse Challenge Plus? (Aust Government program).”

In 2005 we signed an historic agreement with Greenhouse Balanced, a Central Victorian company, to offset the total greenhouse gas emissions of our national vehicle fleet.

The agreement provides 1700 tonnes of carbon dioxide emission offset in a newly established native vegetation plantation, with carbon sequestered by the plantation to offset the emissions from the Bank’s 296-strong fleet of company vehicles in 2003/2004.

Our work with Greenhouse Balanced will deliver benefits from not only reductions in greenhouse gases, but also from improved water quality and Biodiversity.

This scheme will give us a model that will then help others to achieve similar results and be transportable into many of our partner communities.

Following the public announcement of this initiative, several Bendigo Bank shareholders and customers have offered land to be used in future schemes and a register has been developed. We are also in the process of calculating emissions from the company’s airline travel so that it too, can be offset.

Shareholder Privileges

Question: A number of shareholders inquired about possible additions to the current shareholder privileges package.

The shareholder privileges package is reviewed annually by management to ensure that the range and value of benefits available to shareholders remains competitive and reasonable in our circumstances. These current offers are applicable for 12 months. At the end of that period, a new package is available to shareholders.

Ideally, the Bank would like to see all shareholders extend their association with us to include their banking requirements.