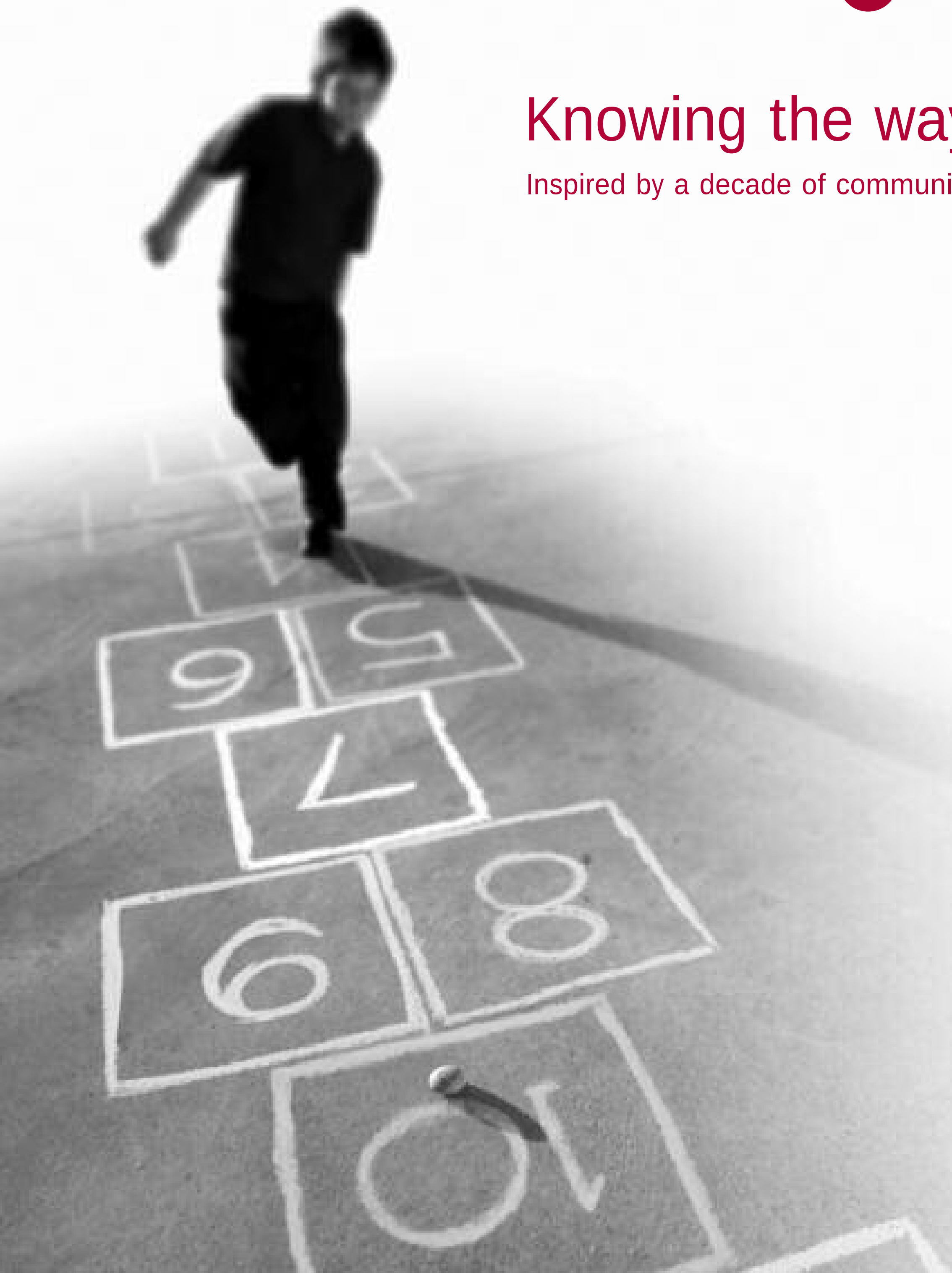
Bendigo Bank

Knowing the way forward

Inspired by a decade of community-focused banking



THE BENDIGO SHAREHOLDER

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Bendigo Bank
140th Annual General Meeting

31 OCTOBER 2005

CHAIRMAN'S ADDRESS
MR RICHARD A. GUY OAM

(An edited text of the address to the meeting by the Chairman, Mr Richard A. Guy OAM)

"Our vision for Bendigo Bank is for a different style to what people have become used to from the banking sector – a bank that is focused on the customer."

Those words do not describe our vision for the Bendigo Bank of tomorrow: They relate to the Bendigo Bank of yesterday. They were written just over ten years ago in the hope of convincing shareholders that their interests would best be served by approving Bendigo Building Society's plans to convert to a bank.

Today, I wish to spend just a few minutes reflecting on that first decade as a bank, if for no other reason than to remind us all of how far we have come in just one-seventh of a Biblical lifetime.

I will also review our 2005 performance and, naturally, outline our prospects for continued growth in the years ahead.

Ten years ago we determined a strategy for this new bank. We acknowledged that our core strengths were our quality customer service, our willingness to engage with and support the communities we served, and the public esteem in which our Company was held. Those were to become the cornerstones of our expansion plans.

And we knew there was a receptive market for such a bank, given public anger at the rash of branch closures then sweeping Australia – closures that were to continue for several more years.

We were able to create a unique identity and style of banking that resonated with the public right across Australia. Thus, we were able both to fuel demand for Bendigo and to fulfill it through the rapid expansion of branches.

This has enabled us to quadruple our branch numbers and to establish networks in all States and the ACT. Ten years ago, we were virtually unknown outside Victoria.

Customer numbers, too, have quadrupled. Just last month, we signed up our one-millionth customer.

After-tax profit has increased nine-fold.

We have established significant new business divisions from scratch – e-bank and Phone Banking, business banking and Wealth Solutions are now all significant contributors today but were unknown to our customers in 1995.

We have entered new markets with the assistance of joint venture and alliance partners. Elders Rural Bank, Tasmanian Banking Services and Community Sector Banking all service customers we could not reach in 1995, and each of these businesses is growing its contribution to your Bank.

International credit rating agencies awarded us investment grade ratings, since twice upgraded to reflect our growth, diversity and improving performance.

Perhaps our major achievement, though, is to have launched ten years ago a brand new brand and have it widely known and universally respected across Australia. The strength of this brand is what is producing our success and continues to provide us with new opportunities.

And that success was repeated during the year in review.

Our underlying earnings grew by 17 per cent, to $146 million. Profit after tax and before specific items grew by 19.4 per cent, to $87.4 million.

We therefore missed – only by a whisker – recording a fifth consecutive year of profit increases of more than 20 per cent. Profit in the four preceding years grew by 56 per cent, 46 per cent, 21 per cent and 35 per cent.

Shareholders can see we have now established a track record of solid profit increases in line with growth in branches, customers and business.

We are also improving key performance indicators.

Earnings per ordinary share grew by 12 per cent, to 65.6 cents, on a cash basis. (Cash EPS is the clearest indicator of growth because it ignores any one-off influences, such as a sale of shares, for example.) Shareholders received a 2005 full-year dividend of 45 cents per share, fully franked, again a 12 per cent increase. Our payout ratio of 66 per cent remains comfortably within our preferred range.

As we forecast at last year's AGM, there was a slight slowing in credit growth and our new loan approvals were stable at a healthy six billion dollars. Through focusing on enhancing our relationships with existing customers, we were able to substantially grow our loan book, by 14 per cent to just under $13 billion.

Managing Director Rob Hunt meets with Bendigo-based shareholder Don Moyse following the AGM.

The Bank and Sandhurst Trustees continue to be trusted brands for investors. Total Group deposits grew by 19 per cent, to $14.7 billion and Sandhurst saw its managed funds grow by 26 per cent, to $2.7 billion. We believe this ability to attract both bank deposits and sharemarket-style investments is a core strength of our Group.

Our credit quality is outstanding, with net impaired assets at negligible levels. The strength of our balance sheet is fundamental to our sustainable growth and we continue to be prudent, monitoring credit trends and building our general provision. We have not sought out the so-called low-doc lending pursued by some competitors, and while this might cost us some short-term growth, it might also save us some long-term pain. We are very comfortable with the quality of our portfolio.

Last year I foreshadowed a stronger focus on capital management – on leveraging our growing balance sheet to fund new opportunities and to improve shareholder returns.

The major initiative during the year was the issuing of Bendigo Preference Shares, a tier one capital instrument that begins to diversify our capital base and which is cost-effective to the Bank while providing holders with an attractive, franked return. As part of the reshaping of our share capital base, we also repurchased and cancelled almost three million of our ordinary shares. It was EPS positive to do so and it tweaked our Tier 1 capital base.

As noted earlier, the year in review was a milestone year – our tenth as a bank – and yet within it were other milestones, too.

- We opened our 300th branch and our 150th Community Bank branch. Community owned branches now comfortably exceed in number our company owned branches – 165 to 153 – and this trend is likely to continue, with new proprietary branches being opened in locations which enable them to support clusters of Community Banks. This is a sensible strategy, as it enables us to leverage costs of specialised services (such as business banking and financial planning) across a number of branches.
- Transaction volumes crashed through a landmark number, too, topping 100 million for the first time. Every second of the day now, our systems must process three transactions.
- We are conscious that our ATM network must grow quickly to provide customers with more Bendigo-owned machines to reduce their fees and make our bank an even more attractive proposition. Fifty-six machines were installed last year – better than one a week – taking our numbers past 350. We expect to install a further 80 ATMs this financial year.

These milestones were not arrived at just by chance. They required investment in our brand to create a compelling reason for customers to join us; and investment in branches, electronic networks and products to service that demand. In recent years you have heard us speak about this need to invest – well now we can begin to speak of the growing returns we are realising on those investments.

- Community Bank now has 165 branches and almost seven billion dollars in banking business. Last year it more than doubled its previous year's profit contribution, adding $11 million to our bottom line. That will continue to increase as more branches open and current branches mature. I should add that last year our community partners earned $60 million as their proportion of banking revenue shared with Bendigo. From this, they pay all their salaries and other operating costs. Around half of the local companies are now making sustainable profits and distributing community and shareholder dividends. (And remember, the other half have been open for less than three years.)
- Elders Rural Bank – our joint venture with Futuris Corporation – is now a stand-alone agribusiness bank with $2.5 billion in assets and a 2005 profit contribution to Bendigo of $13.7 million. Bendigo and ERB are now beginning to cross-pollinate products to leverage further growth from both branch networks. We are optimistic about the future growth prospects of this venture – particularly since it has grown strongly, and maintained first-class credit quality, during a prolonged drought.
- Another of our joint ventures, Tasmanian Banking Services, has quietly achieved a presence in the Apple Isle, with six retail bank branches and half-a-billion dollars in business. It contributed $700,000 to our 2005 profit. Our prospects of growing our Tasmanian business continue to be excellent, with Community Bank branches of Bendigo Bank now beginning to emerge in smaller communities.
- Our homegrown Wealth Solutions business – which was built around the framework of Sandhurst Trustees – produced a 2005 after-tax profit contribution of $18.8 million. This business is integral to our aim to help customers achieve their financial goals, because it enables them to access – through our branch network – a range of financial services that complement our banking offer. This deepens our relationship with customers while making better use of our distribution network.

Queensland-based Bendigo Bank director Neal Axelby with Melbourne shareholder Barry Price.

It also provides us with other big advantages by affording us the ability to sell loans from the Bank into the Sandhurst Trustees mortgage funds. This helps the Bank's capital management by moving loans off balance sheet – thereby not requiring capital backing – and helps to ensure Sandhurst's business growth is balanced on both sides of its ledger.

- Community Sector Banking – our joint venture with Australia's not-for-profit sector – made its first profit. As with our other ventures, this business has a lot of potential to grow its contribution as it demonstrates the value it can add to its large constituency.

We also continued to make headway with our community engagement initiatives, a key plank in our strategy and one so critical to our long-term success.

I do not propose to elaborate on the progress of all the individual commercial initiatives grouped under our Community Enterprise trademark, or of our youth and community development program Lead On. I do wish to briefly explain, though, why it is so important to connect our Company to the community in ways beyond the financial services we provide.

By connecting more strongly with our customers, we will enjoy the best prospects of long-term, sustainable growth. This connection must extend beyond the provision of banking products, which can also be obtained from competitors. Through adding value for our communities over and above our role as a bank, our point of difference is perpetuated and magnified and Bendigo becomes a more compelling brand for prospective customers in those markets.

Our results to date bear this out. Nett customer growth has averaged just under 7000 customers per month over the past three years. One million Australians have sought out the Bendigo brand and demand continues to be strong. A key focus is to broaden the relationships we have with those million customers. Having invested to build a strong product suite, we can now confidently go to our customers with relevant offers for them to extend their relationship with their bank.

That is not to say we are ignoring new markets. For the sixth year in succession, we will open 30 or more new branches – this year we anticipate adding six company owned branches to the 30 Community Banks we expect to open. Having established networks in each State and the ACT, we are very hopeful of conquering our final frontier, the Northern Territory, where five Community Bank campaigns are nearing fruition. Seventy per cent of our new branches this financial year will be outside Victoria.

We are also currently in the advertising marketplace with the twin aims of raising awareness of the Bendigo brand and informing prospective customers of our offerings.

As far as market conditions today are concerned, we have seen some slowing in demand for housing loans, but certainly nothing that alarms us. Our first three months trading have been satisfactory and continue the orderly progression in growth and profitability that we have seen in recent years. I can reaffirm that we are aiming at an increase in cash earnings per share in the order of ten per cent.

I have spoken of our unique strategy, our position in the public's mind and the growth we have achieved. All of those things are only made possible by the people in our organisation. It is a source of enormous pride to us that we consistently rank number one for customer satisfaction among Australian banks and that is a testament to the quality of our people.

May I, as Chairman, thank each and every one of the 3000-plus people who represent our brand for their commitment to the Bendigo style of banking.

Finally, I turn to the issue of your Company's Board structure.

A good Board is all about balance – the correct balance between the wisdom conveyed by experience and the exuberance and fresh ideas brought to us by new contributors. Your Board of Directors, too, requires regular injections of fresh blood, and I am announcing today our plans to ensure smooth and effective Board renewal.

As you have heard today, during the past decade your Company has grown from a relatively small organisation into one of Australia's top 150 companies. Our balance sheet is ten times larger; our staff almost five times larger; our distribution network now encompasses the entire nation. We are poised, we believe, for the next phase of our growth and it is vital that we have Directors and senior managers with the requisite skills and experience to secure sustainable success.

As part of this process, I will be standing down as Chairman, effective from the end of March 2006. With the unanimous support of your current Board, our Deputy Chairman, Robert Johanson, will assume the chairmanship from that date. I intend to remain on the Board for a short time to ensure the smooth transition to Mr Johanson's leadership and to assist with the assimilation of new Directors. I will then retire from the Board at an appropriate time. Shareholders last year elected me for a three-year term due to expire in October 2007, but at the moment I do not intend to see out that term.

We intend to make a staged appointment of two new Directors to the Board over the next 12 months. I will, for a time, assist Mr Johanson in settling new Directors into their roles.

We are currently working with specialist consultants to identify candidates who have the skills and cultural fit required to enhance our current team and now have a shortlist for interview. We anticipate making further announcements in the coming months.

The Chairman also expressed his appreciation to his family for their ongoing support during his term as Director and Chairman of the Bank. Mr Guy also thanked past and present board members for their friendship, support and counsel.

Meeting passes all resolutions

All resolutions were overwhelmingly supported.

- Directors Robert Johanson, Neal Axelby and Terry O'Dwyer were all re-elected.
- The Remuneration Report for the year ended 30 June 2005 was adopted.
- The maximum annual aggregate amount payable to non-executive directors in directors' fees will be increased from $900,000 to $1.2 million.
- Rule 104 – approval of partial takeover bids – will be reinstated and renewed for three years, until 31 October 2008.

Bendigo Bank director Kevin Roach with John Haymond and Ross Laugou, both Bendigo-based shareholders.

Shareholder Questions

An edited selection of answers to shareholder questions

Q: 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?"

A: The preference share offer prospectus was subject to external legal review to ensure the document complied with applicable disclosure obligations and did not contain any advice about 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.

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.

Q: 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. Can shareholders expect next year that earnings per share will move closer to company profitability?

A: 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.

Q: 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?

A: 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.

Q: 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 per cent 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?

A: A significant proportion of the Bank's existing network is still in its early stages of 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.

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.

Q: Do you consider the Company has adequate internal controls in place to significantly reduce the likelihood of a major fraud in the future?

A: 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.

Bendigo Bank Chairman Richard Guy OAM with his wife Claire and daughter Charlotte following the AGM at which Mr Guy announced his intention to stand down from the Chairman's role in 2006.

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.

Q: 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)?"

A: 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 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.

Q: 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?

A: 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 to boost their retail representation. The major banks are formidable competitors and it would be foolish for us to ignore them.

We continue to receive a healthy level of inquiry for new Community Bank branches and expect to open 30 new ones this financial year. A growing proportion of new branches are in communities already served by competitors. Demand for our model is being fuelled by the realisation that, through sharing revenue between Bendigo and the local community, Community Banks contribute much more than just the provision of banking services. We are confident we will continue to grow our business strongly despite competition.

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