Bendigo Bank June 2004 Profit Announcement
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Following is a transcript of Bendigo Bank's 2004 profit announcement held at Le Meridien Hotel, Collins Street, Melbourne on Monday 9 August. This transcript has been edited for clarity. These edits do not change the content of any of the answers provided.

Owen Davies: "Good morning and welcome to the 146th Profit Announcement by Bendigo Bank Limited. Also a welcome to our online listeners through our webcast this morning.

Our presenters will be Bendigo Bank Group Managing Director Rob Hunt, and our Chief Financial Officer Craig Langford. I also acknowledge this morning the presence of a number of members of the banks' Executive: Mike Hirst from our Strategic Division; Vicki Kelly our Chief Information Officer; Greg Gillett, Head of Retail Banking; Marnie Baker – Head of our Solutions division and David Oataway our Company Secretary. They will be available to speak with you after the presentation. We will take questions from the floor following the presentation. The first presentation will come from Craig Langford our Chief Financial Officer, and he'll be followed by Rob Hunt our Managing Director. Thanks Craig"

Craig Langford "Thank you Owen. It's my pleasure to introduce the profit result for this year. We've called it "A Growing Capacity". We've continued to grow the bank's capacity dealing with our alliance partners and a lot of Community Banks involved in that. As you can see our headline profit increased by 35% to $79.8m. Our normalised profit was up 24% to $73.2m, our normalised earnings per share up 18% to 55.2 cents, our final dividend up three cents to 23 cents, and our full year dividend increased by 6.5 cents to 40 cents.

This next slide really just gives you a trend run on what the bank has been doing in terms of operating profit in both reported earnings and an underlying trend. (There has been) solid growth. Our reported profit was up $10m in 2003 and $20m in 2004. If we looked at the normalised result, up $11m or 21% in 2003 and $14m or 24% in 2004.

We pulled out quite a few specific items this year, really to give investors a good view of what the bank's underlying performance is actually doing. And we'll just run through what they are so you understand the flavour and why we've taken them out of the core results. And from now on we'll really be talking through most of the presentation about the underlying result.

We made a $7.6m profit on the sale of our shares in Cashcard. We recovered from the tax office some GST, which had been overpaid in prior years, of $1.5m. We sold six properties during the year with a net return of $1.3m. In May we wrote off an investment in Inch Corporation, of $1.1m and that was basically because we had purchased the business that Inch ran for net assets and that has now been wound into our Wealth Solutions unit. We also participated in a capital raising undertaken by the Bendigo Stock Exchange in June and that resulted in our share of the BSX increasing from 22% to 49%. Now under Australian Accounting Standards we are then required to equity account as if we had owned it since formation in 1998, so we had to go back and book our proportion of the formation losses of that company since it was set up in 1998 and that resulted in the $600,000 negative. The income and tax effect of all those specific items was $2.1m so the total of that specific deduction from our headline profit was $6.6m.

The next thing that I'd like to talk about is our net interest margin. The margin decreased by 18 basis points for the year. Two major components drove that decrease in our margin. The first one is, we actually share margin with our Community Bank® partners. Community Bank® now comprises 27% of the bank's deposits and 22% of our loans. That impacted our margin shifts by 10 basis points and the second area that impacted our net margin income was market forces. There's obviously strong gapping out between cash and build spread during the period. Primarily our funding is based on bank bill rate, however most home loans are priced off cash, so obviously we get some compression from that. Also there was a strong shift for consumers during the period from variable rate loans to fixed rate loans and fixed rate loans are a much tighter margin than the variable margin. As at June 03 we had 35% of our housing portfolio in fixed rate loans, and by June 04 it had gone up to 43%, so a strong shift there from variable to fixed.

Our non-interest income … we're just given you a snapshot of the components there. It increased by $15m to $140m in a normalised sense for the period. 35% of our revenue comes from deposit transaction fees, 18% from commissions (that's primarily out of the Wealth Solutions division), 17% are from loan fees, 11% is our share of associates (which will primarily be Elders Rural Bank), and we're pleased to see Tasmanian Banking Services made a good contribution this year. Securitisation was 6%, our trustee management and other service fees 6%, insurance commissions 4% and then the others made up 3%.

The next chart gives you a breakdown of those components over the last three years and you can see strong increases in deposit transaction fees – they were up 17% this year. There were no fee increases so it was just purely driven by volume of transactions and accounts. Our loan fees were up 14%, our wealth creation commissions – which was primarily Wealth Solutions – was up 25%, securitisation declined 27% and that was really on the back of a 20% decline in our securitised portfolios.

Next slide is our contribution slide. Now we're calling this contributions, not net profit, and that's really because, particularly for Wealth Solutions and Community Banks, it's net of all head office charges – for example retail bank pay for all the financial planners who live out in the network. However they are all growing strongly. Firstly, Elders Rural Bank was up 16% to $10.9m. Elders Rural Bank's balance sheet increased by 15% (and) asset quality still remains extremely strong. In the Wealth Solutions area, contribution was up 80% to $13.7m and that was on the back of a 25% increase in funds under management. And in Community Bank®, the contribution was up 62%, and that was on the back of a 67% increase in loans and a 49% increase in deposits. We increased our Community Bank® branches by 29 to a total of 132 and that compares to the Bendigo (company owned) branches of 144.

This next slide just gives you a snapshot of our funds under management under various categories. They were up 35% between 2002 and 2003 and then up another 25% between June 03 and 04. We had over $2 billion of funds under management and in addition to that we have another billion dollars of funds under advice.

Next slide just gives you a snapshot of our operating expenses as at 30th June – increased by $30m or 12.5% to $274m. You can see the big bulk of it is 49% in salaries and staff costs and that really reflects the strong customer service ethos of Bendigo Bank. Then we drop down to 8% for occupancy, 8% for information technology and the rest fall away rather quickly.

The next slide now gives you a three-year trend of each of those lines. Probably the big mover there is obviously the staff expenses, which were up 14% or $17m. That was on the back of an increase of full time equivalent staff of 11% or 203. Most of these people have gone to the front end of the business serving our customers. The other area that is up quite strongly was our other operating expenses, a 13% increase that reflected quite significant increases in cash servicing costs during the period, our rewards programs and obviously the implementation of the Financial Services Reform Act.

In terms of our efficiency ratio, a slight improvement there, down to 69.4 for the year. We did get 67.6 in the second half and we're still committed to a 65% ratio for the second half of 2005.

Our total assets are growing quite strongly, particularly on balance sheet with an increase of over $2 billion, up 17% in the total assets under management to $13.5 billion.

Our lending approvals remained very strong, up another 26% or $1.2 billion for the year. This was similar to the growth in the prior year of another $1.2 billion then as well.

Again one of the big success stories which we've talked about before – and I guess one thing about this presentation, it's all pretty much what we've said before – retail deposits, a key growth area for Bendigo Bank. We had 20% growth from 2002 to 2003 and another 20% increase this year. We still have 90% of our book in retail funded and that was down slightly from the 92.5% we had in 2003.

Our commercial loans increased by 23% to just under $1.8 billion during the year, again that continued to be well spread. No really major changes in the categories. Property and business services went from 35 to 38% and agriculture dropped from 15% to 11% during the year, and that was really because we sold some rural assets to Elders Rural Bank.

The next slide I think is a very strong statement on the under-lying quality of the Bendigo Bank portfolio. By purpose, 62% of our loans are residential and 38% non-residential. On the security side, we have three quarters of our loans residentially secured, 20% commercial and 5% are unsecured.

Next slide, a geographic spread, again as we've told you previously, pretty well funding where we're going interstate. Virtually no change in the slide apart from in the deposit slide. Last year we had 62% in Victoria which has declined to 59% and New South Wales has gone from 9 to 12%. So 59% of our deposits in Victoria are funding 59% of our loans, Queensland 15% of deposits funding 14% of our loans, 12 and 12 for NSW and pretty well everything else is match funded – so I think a pretty good story about how we continue to fund ourselves as we move into new markets.

We'll just talk a little bit about our asset quality, which again is very strong and a good story. Non-accrual loans are down to $12.9 million in total and our net non-accruals only $4.9 million for the year. We continue to run our general provision at 79 basis points.

Looking at impaired loans to our total assets, again a really good story, 18 basis points down to 11. However we do acknowledge we are at the strongest point in the cycle.

Capital adequacy, we continue to maintain very strong tier 1. Our targets are greater than 8% tier one and the total ratio is greater than 10.25%. If we looked at our carried forward expenditure, Bendigo runs a very clean balance sheet. In terms of the APRA deduction numbers there's only $3 million to be deducted. If we totalled up everything, including all our IT, we would only be $7 million, so a very very clean balance sheet.

The next slide shows our return on equity. We've promised targeting 1% growth per year, and in terms of our under-lying earnings we have pretty well achieved that with 10.2 in 2002 and 11.1 in 2003, and 11.9 in 2004.

Our earnings per share: 18% growth in our normalised earnings per share this year, 28% headline. Our dividend in terms of normalised was a 71% payout ratio which is in line with our target.

And at this point in time I'm happy to hand over to Rob Hunt, who will talk about the strategy, performance and the future for the organisation."

Rob Hunt: "Thank you very much Craig and thank you for everyone in the room for their interest in Bendigo Bank. I guess that some of this is pretty much the same as you've heard from me before, in the sense of what we set out to do. In fact we made it quite clear three years ago we were really building a sustainable retail banking business. Our view at that time was that we were going to set out to create a unique bank identity, demand for our brand and our services. That is in new markets, and also to reinforce the establishment, or the arrangement, we had with our existing markets. (We aimed) to broaden the distribution network, that is to build the capacity to take this style of banking to a broader range of markets, and (to broaden) the product offerings, and I'll touch on that briefly. (We aimed to) enhance the capacity of our communities and we'll talk a little bit more on that. Just how well we've actually connected with the buying base is in fact one of the reasons I think that we've actually got greater prospects of retaining revenue growth across the board to improve the financial performance of the bank coming off a pretty low base.

It's been a consistent strategy, producing sustainable shareholder values. Just recapping our achievements of the past three years. We've actually managed, in my view, to create a unique banking identity and put a clear style of banking out there – an honesty, quality service and a customer engagement approach that is in fact winning appeal from customers. There's no doubt that there's a greater commitment from some of our buying base to utilise our services. The strategy certainly improves customer and community outcomes, which in turn obviously reflects in our bottom line. In the 1990s, as far as the customer and community was concerned, banks tended to disengage themselves with the buying base. We saw community engagement as a way of actually establishing from our strengths a strategy that would actually take a different style to the market at that time. Community Bank® was one of those things that did reinforce that point of difference, but really that whole issue of community engagement and collaborative efforts – that is utilising and supporting other people and their aspirations to serve their customer bases – has actually worked well for us. A bank that has focussed on building value through customer and community success will be able to rely a lot more on the reliability of the revenue line that drives its profits and the bottom line.

The next slide is really just covering off on that unique bank issue, and that is the growing demand. We've seen this year, quite clearly, in all the surveys that we're doing – and also some that the industry is doing – the positive market awareness and carry of our brand. The brand is able to go into very different markets that you wouldn't expect. In Northern Queensland and Western Australia, we are actually managing a great deal of acceptance in brand new markets for a brand that would previously have been seen to be just Victorian and just country. The customer satisfaction surveys are pleasing to us, but that's also challenging to us in terms of maintaining that level of customer service and focus. The Community Bank® demand continues today, driven by a slightly different dynamic. In the early days, it was a little bit of disaffection with some of our competition. I think nowadays the model is working and it's actually seen as much more of a community engagement activity that can generate a lot of other benefits in the community beyond just the financial benefits.

It's interesting, as Craig points out, in terms of our growing interstate, we've gone interstate as a retail bank and we've grown both sides of the balance sheet in doing so. I think that actually says something about the value of the brand. In Qld, NSW, WA, Tassie and SA, in each case we've actually developed strong demand and new customers. The solid growth in the Victorian network continues, and I think that is in some ways just a recognition of the style, the different approach to banking. Customer numbers since 2001, which is the period that I'm really covering in these comments, grew from 505,000 customers to 916,000 customers. It's a big change for an organisation that's actually set a very different agenda. Our banking style, in our view, is in demand. It's not for everyone but it is in fact in demand from the customers that are seeking us out.

Once again just continuing on the broadening of our distribution network, to give you an idea of the difference since 2001 – 179 branches in 2001, 276 in 2004 and you'll see from my future statement, further indication that there will be new branches next year. Of that, Community Bank® has grown from 45 to 132. Bank agencies haven't changed in number but they have changed in the way in which they operate, and some of those agencies are moving much more to the sort of electronic framework than in the earlier days. I (interpret these numbers as showing there is an) expansion of the community markets that are available for Bendigo Bank to provide its different style.

Once again, in terms of broadening the distribution of products, this time through alliances, Elders Rural Bank is still a relatively young bank, now developing very strong growth and good strong earnings and contribution. As I see it, combining of the distribution capability of Elders and Bendigo and all of our other alliance partners, provides us an opportunity. We provide quality products and an opportunity to service that market with our particular brand of products and services. So you wont be surprised to see that Bendigo products could well be available in Elders Rural Bank branches in the future, and you won't be surprised also that Elders Rural Bank products will be available in Bendigo Bank branches. This is how we actually view distribution: if there is in fact demand for that particular product range, we would look to see if we can actually develop strong connections with our partners to see if we can actually broaden that distribution.

Tasmanian Banking Services is a relatively new venture, but as Craig has said is actually contributing to the bottom line. Community Sector Banking and Guild Banking are the same sorts of things. These are simply collaborative efforts where we're focusing on trying to build products or service or particular competencies to service discrete markets. Bendigo Bank's collaborative skills are been demonstrated – it is one of the things that I see as a core strength of this organisation. It has actually been able to successfully run joint ventures and collaborative activity and actually produce a good outcome for both parties.

This slide just gives you an idea once again on distribution. The ATM network has grown from 117 to 265, the e-banking customers have now grown to 100,000 users, phone banking is 165,000 users, EFTPOS has grown to 5,500. EFTPOS was really very much just looking after our customer base – our business customer base – now it's actually become one of the key product lines not only that is required by our business customers but is actually sought after. The other issue is just the card-holders and in some ways people have tended to categorise Bendigo as a particular style of banking, which is only looking at face-to-face, and yet our customers are electing to use our e-banking channels.

Wealth Solutions is one of the success stories in my view of this organisation and I think better yet to come. (The combined efforts of) Sandhurst Trustees' cash and mortgage funds, the Bendigo Managed Funds and the Sandhurst industrial Share Fund has actually seen us now grow our funds from under a billion dollars in 2001 to just on $2.2 billion, a 123% increase in a relatively short period of time. I think it gives an indication that we are truly a retailer focused on customer, and we welcome new product that adds value. The Bendigo Investment Services and Worley's, our advisory structure, has grown to having funds under advice of around a billion dollars, which is in some ways new value for customers and it's also new emerging revenues for this organisation.

The next slide, once again, is talking about the community issue. I guess the most visible community issue is about the Community Bank®, but there are many other things and I'll touch on a couple of them. If you actually look at what's occurred with Community Bank® since its inception, there's about $100 million of revenues that have actually been retained at a local level. Sure the communities have to spend that on running their shop, paying their staff, turning the lights on and running their operation. But when there comes a time when that actually starts to generate local profits and they plough those back, both in terms of dividends to local shareholders as well as contributions to community. You can imagine that really reinforces the brand connection with those buyers. There are 700 brand new committed staff that work in those particular organisations. Three million dollars is being contributed to local projects, and that is actually increasing very rapidly. Two million dollars in dividends already paid to local shareholders and that I do expect to rapidly increase. Eleven hundred Community Bank® directors spend a good deal of their time thinking about how they can help us develop the business to assist their community. It also assists our bank – the $13.6 million contribution to the BBL bottom line. But I re-inforce what Craig said earlier, this is a contribution, it's not actually just a break-up of the statutory profit. I categorise this in some ways as strong customer and community commitment to buy and stay. This is in fact one of the differences I think in the way in which we've approached our customer acquisition strategy.

I won't dwell on this slide. (Community) Telco is only very very young in its life, but this is in some ways building a business opportunity for suppliers to commit to particular market places. There are only two pilot sites at the moment. They have delivered quite substantial savings to unit prices to these marketplaces, but probably more importantly they have actually got commitments for new services and infrastructure. They have actually developed new competencies, and confidence and new levels of co-operation in their community in terms of the technology and welcoming that technology. These are great opportunities for a bank if you have a market that is actually thinking like this. So of course, we've built the model, but effectively we are assisting communities to contemplate how they can be sure they can be in the new economy in the best possible shape. Assisting communities with essential infrastructure skills and guidance is actually one of the key motivations there. As I said, a prosperous village is a great place to run a bank.

The next one on community capacity is Lead On. I'll just touch on that. It's a youth community engagement model. It's a model about actually enabling the broader range of community to get involved in building the strengths of the community. It's active sponsorship if you call it that, but we are actually involved in the development of the model. It's also about building social fabric and connection. For us, it's about building staff skills and engagement skills. The ability for us to engage in what the community is trying to achieve – through its young people and broader business sector – gives us a greater opportunity to understand best how the bank might perform its task well. In some ways it's an excellent opportunity for both bank and community to engage in something that's real life, and something that's really going to make a contribution. In terms of community capacity, there are lots of other things. I'm not going to go into them today, but Community Sector Bank is very much aimed at the (not-for-profit) sector, developing skills and competencies and products for that particular sector. Community Exchange, Community Foundation, active staff participation at a community level. In fact, ongoing sponsorship is a natural expectation of a banking organisation, but our sponsorship goes beyond the dollar. It actually, quite often, is really active involvement of our people in using our skills to build more substantial and lasting solutions. In some ways it's using our commercial skills and community aspirations for a different outcome. Being more valuable than our competitors in every community would be one of our objectives.

Now we get onto the really meaningful stuff – what does that actually all produce? As Craig has pointed out, I think it's produced quite a solid improvement in profitability; return on equity largely in line with what we'd actually stated we would do; earnings per share growth is quite solid; the dividend stream is actually improving the potential of that next line, which is really the market value, or the assessment of the market as to the value of our business to date, and the value of the prospects moving forward. Steady progression in earnings is just reinforcing what we said we would do as we move on this journey with this strategy.

This year we've seen, as Craig has outlined, strong lending and deposit growth. It is interesting, and I'll re-inforce this, that we've managed to grow asset and liability in every market in which we've operated. I guess the strong growth in revenues actually just reflects the progression and the maturity of the businesses. Wealth Solutions is relatively young. All of our joint ventures and alliances are relatively young. Community Bank® clearly is still now starting to emerge. (These businesses are growing) their contribution and these are all investments that we've made in previous years. The gross margin remains high. The reported margin is in fact net of the Community Bank® share – that is after the distribution costs, or the share of the money that we pay Community Banks. This in fact shows that the margin is actually reflecting the strength of the brand, and the strength of the relationship we're having with the buying base. The return on equity improvement is largely in line with forecast, as I've stated, and I'll just re-state what Craig has said: we have a strong and clean balance sheet. Effectively most of the development we've been undertaking the last few years has in fact, largely been expensed. I guess this is all a product of a consistent and unique strategy. Some would say we were bold in taking that to the market a few years ago, because it was so different, but I think that is actually now being rewarded handsomely with customer support.

The next slide is Looking Forward. In terms of the trading environment, clearly we are in a very strong domestic economy. We are aware of strong household debt; the potential upward pressure on interest rates as that might emerge and what issues that might cause; we're watchful of what the international economy performance might do in terms of the domestic – we're a domestic trader, but what impact it might have on us. We have had 13 years of consistent growth in this country. It leaves us a little bit more cautious as we move forward, despite being very optimistic about how we've positioned the business. We're just cautious about just where this will lead us over the next few years. I guess we're as well positioned as we could possibly get this business at this point.

In terms of our position, we believe we have built that strong branded market positioning. We've built a robust balance sheet where most things have been expensed. We've got 170 new branches that are under four years old, and that's 170 new communities in which we are operating as a relatively young and new player. We've got 33 new branches projected for F05, our funds management growth is expected to continue as we expand – and we could probably expand the product range over time, but mostly expand the integration into our retail network across the whole national framework. We've got strong margin in my view and I think that does reflect the brand and the positioning and the strength of commitment by customers. We've got a fantastic team, and I can say that now looking back, but in 2001 or in 1999 it took a great deal of courage from the board to the senior executive to all the staff to implement this particular strategy. And I couldn't actually lead a more competent, capable organisation to implement this particular strategy. I think it is in fact one of the competencies that is probably misunderstood about our organisation – the fact that we have fantastic ability to do things that are different, and we have fantastic capability to do things that actually have us thinking outside the square about what role a bank might play into the future. Our business, in my view, has never been better positioned to undertake the next steps.

In terms of the earnings guidance, we tend to try to provide some sort of framework. Our strong retail funding confirms that we can actually fund our growth. Above system growth is one of the things that has actually been with us for some time and we do believe we are going to be able to continue that. We have got a relatively young network. All of that network is actually generating new business and that new business is in fact going to stand us in good stead if the market does slow a little. We expect improvement in the alliances and joint ventures and subsidiaries and the things that we have actually been doing the last few years in building our competencies and capabilities are actually going to start to really make a solid contribution to bottom line. When you look at the normalised – and I'm talking about normalised issue here – we expect the normalised profit growth to be in the region of 15 to 18% next year, on the basis of the best assessments we can make and take into account that the market might not always be as buoyant as it has been over the last few years.

The revenue growth strategy that we have embarked upon is expected to continue to deliver improved results and I'm confident that the particular strategy is in fact being sought after in many communities that we haven't actually arrived (in) at this point.

I'll now close off at this point and thank you for your interest and we'll take some questions. Thank you."

Questions

Ivor Ries — "Ivor Ries from Baillieu's. Craig, at June 30 what percentage of the Community Bank® branches were in profit?"

Craig Langford — "About half"

Rob Hunt — "The Community Bank® process goes through the early years as (a) building (phase). The (community's) capital is used for working capital as well as for the establishment of the branch, and payment of a small franchise fee to us. In essence though, it's when they start to generate consistent positive cash flow that we start to talk about them being in profit, and they work through the process and start having to decide on reserve policy, dividend policy, community contribution policies."

Mike Macrow "Mike Macrow, Smith Barney. Perhaps the only negative you can see in the result is the drop-off in the margin or spread in the second half, and it looks like fourteen or fifteen basis points whereas it might normally fall by five. Is some of that related to wholesale rates? or do you see that as being a permanent reduction? And for that matter, when you have your 15-18% profit guidance, what are you assuming on the margin in '05?

Craig Langford "We'd assume that margin would decline slightly in '05, but not to the extent that it has this year. In terms of guidance we're talking about net profit after tax."

Geoff Emmanuel "Rob, Geoff Emmanuel from UBS. Rob, two questions. First the outlook statement: There's a general sort of 5% drag each year on EPS that comes from capital raising. If you're going to grow a little bit slower than the last couple of years, does your dilution commensurately come down as well?"

Craig Langford "Yes it would because we wouldn't need to raise as much capital"

Geoff Emmanuel "And the second question, just again following Mike's question on margins. With the Community Bank® taking its share of earnings, if you like, partly out of the margin, in terms of longer term decline, do you see the sort of sub 2% in five years time as being reasonable?"

Craig Langford " I probably couldn't give you an answer at this point. It really depends on the percentage of the balance sheet that it gets to"

Geoff Emmanuel "And just with the last year, your deposit growth is pretty strong, but the margin I think you've attributed, I think Craig you mentioned that your market forces are variable to fixed in housing was 35-43%, but you mentioned that Community Bank® was about 10 basis points: is the 10 a blip down? or is the 10 a consistent?

Craig Langford "Basically, in the Community Bank® model we share revenues and share expenses. Obviously then we are paying half of our margin away to Community Banks. As it becomes a larger proportion of the total it will impact into that number, so the gross margin is not declining as rapidly as the net margin would do. In terms of product margin we are doing quite well, but of course we are sharing margin – obviously reducing our costs on the other side, that's the set-off.

Geoff Emmanuel "Last question: with cost growth, can you give us a figure for expected reduction and cost to income going forward?"

Craig Langford "Yeah I guess we're only giving the guidance till next year, and we'll probably give you some further guidance after that."

Ivor Ries " Yes, Craig you spent $23.6 million buying equity investments. Can you just give us a breakdown of what that is? or is it just mostly IOOF."

Craig Langford "Yeah it would be mostly IOOF, and I think it would be partly Elders."

Rob Hunt "Primarily Elders Rural Bank, consumption of the capital as their business has been growing. The only really major one would have been the IOOF purchase."

Ian Rogers	"Ian Rogers from The Sheet. Rob, I just wanted a more rounded discussion about your view about the home loan market at the moment, and the state of demand in the June quarter and the amount of business you're sourcing through third parties, and the profitability of the different channels."
Rob Hunt	"In relation to (broker sourced loans), we have very little, I think it's around 8% or thereabouts, and they tend to be the longer term connected brokers, particularly through National Mortgage Market. In terms of the housing outlook, we've anticipated now for two years that housing wouldn't remain at the buoyant stages. We have positioned the organisation with a strength in business banking. We have invested in this and committed to have business banking represented right across our networks. We've been trying to position the business to cater for it slowing down. It hasn't occurred, but we have actually seen, I think, that there is a just a general slight slowing that's in certain markets in particular, in certain capital city markets, but it's not really a violent change, it's really a relatively small change that we've seen.
Ian Rogers	"Could you also please elaborate Rob on the growth in loans that are notionally business banking presentation that are largely secured over residential properties, but what kinds of lines of business are you getting? and are they mainly coming through Community Bank® or through more orthodox channels?
Rob Hunt	"We've been a bank since '95. We were really very conscious of not actually launching into business banking early in our conversion process. We've been gradually building the competencies and skills in our business banking teams across the network, so the business banking that you're seeing is actually drilling up through every community and every district we're in today where we have the level of business banking competencies and we're sure we have the products. So we have gradually been building this capacity for some years now, and we think we're in a position now to grow solid business particularly in the small to medium sector, and particularly in the markets where we do know and understand those markets. So we're not trying to do a mass market, you wont see large advertising campaigns, we're very much doing our work on the ground in each of the 270 odd communities in Australia.
Ian Rogers	"That's not a very specific answer, so maybe you could give us a bit more of an indication about your expectations for business loan growth relative to your historic growth"
Rob Hunt	"We're anticipating overall a growth for both of the sectors, business and for housing, of about 18-20% growth rate in business next year, and I would think you'd have a slight bias on the business finance given that we presume that housing would slow down. But that's about all I'll provide at the moment.
Ian Rogers	"Okay, can I ask in the cards and transactions arena, what the consequences for Bendigo would be in the event of an unfavourable outcome in relation to Visa debit, which has been designated by the Reserve Bank – what the ramifications are for Bendigo's revenues from whatever they might decide, and perhaps just give us a bit of a commentary about the Reserve Bank's handling of the whole EFTPOS and ATM interchange reform process and what outcome you would now like to see."
Rob Hunt	"We've been positioning the business, the whole card business, or repositioning our card business, given that we were effectively an issuer solely a little while ago, you can see why we're pushing out with EFTPOS and the acquiring side. We've broadened the range of products that are available in our card system, we've now got all the brands in the

marketplace, we've certainly lifted our usage and promotion of those cards, so we're looking in some ways that there will be some change in revenue lines for us, but not significant. But they are in fact sufficient, given the strategies that we're employing, to offset the loss of interchange revenue other revenues will emerge out of the whole cards and banking business, cards and e-banking business."

Ian Rogers — "And just to get on to the second half of the question, what kind of outcome would you like in relation to EFTPOS and ATM given that they've been designated?

Rob Hunt — "In relation to EFTPOS, we've put forward an argument about the zero base, and from our point of view we've seen the emergence of this particular highly effective card payment system and huge investments by banks and others – but primarily by banks – in actually bringing that to the consumers and from my point of view, (having) designated them now I think they have to recognise the past investments and the continued effectiveness of the payments system moving forward. We think we play an important part, and we'd like to make sure that the customers and consumers in fact gain some benefit from these reforms as well.

Ivor Ries — "Sorry to focus on this again, but on Community Bank® branches, two questions, one – what percentage of your asset at June 30 did the Community Banks represent? and also for the 30 new branches that you intend to open this year, can you tell us where they're going to be focused geographically?"

Craig Langford — "In terms of assets, it's about 20, just over 20%. And the new branches, Rob probably could comment on that."

Rob Hunt — "The new branches, it will pretty much represent the national spread, there's demand really coming right across the national body, so I'd expect to be represented pretty much as you see today Ivor, where the Community Bank® demand is, is what you're saying."

Tim Boreham — "Hi, Tim Boreham from the Australian. I'll ask two things, the first is still on Community Banks, so I'm sorry about that. Of the 33 branches, how many are Community Bank® branches, and what do you see as the optimum mix between Community branch revenues and your own revenues? It must come to a point that you don't want Community Banks to be dominant because you want to come up with the margin I suppose. And the second question relates to branch fraud. You had one or two during the year, so I'm just wondering how the losses will be treated and what you're doing to ensure that it doesn't happen again?"

Rob Hunt — "The way I view Community Bank® is that it is in fact one of the distribution options that are available to our business and to the community, and if we are convinced that the community, because of their willingness to get involved, will drive far greater commitment to buy and stay, then we will look at it as one of the distribution options that will work in that particular marketplace. So in terms of the optimum level we obviously have a different range of networks emerging in Australia. In WA we have one branch and the rest of the 25 or 26 branches are Community Banks. In Sydney we opened six branches and I think we have 15 or so Community Bank® branches where the six branches that we opened – the hub branches – principally provide all of the professional support, the business banking, the wealth management and so forth. So we're looking at the moment at what's the best model to leverage the full range of products to every one of those markets. So we haven't come to a finite decision on it, except to say the first thing is driven by, if there's a strong community commitment to build a distribution network with their capital, then we will certainly look at that as an option.

The second part then comes down, how do you effectively and efficiently run that operation, given that they effectively are the distribution business. They don't do the business banking, they don't do the wealth management activities etc. They act as the distribution connection or partner. So we haven't settled on that yet Tim, in the sense of what's the right mix, what's the right model, and we don't see it so much as a number mix, it's a matter of how do you really become effective in every marketplace, and get the best return for your dollar, if we're going to have an adviser in a market, if that adviser can service six or eight branches, some of them small Community Bank® branches and some of them larger Bendigo Bank branches, that makes that position and investment highly effective.

In relation to the fraud, these things do come to disappoint you, when they emerge. We have done a major review of whether there were things in the process and systems that we could have been doing better to identify it. We do have people in a position of trust, that have misused that position, and we're certainly making a big investment at the moment about one in terms of improving the process and making sure that we actually invest so we try to minimise these occurrences moving forward."

Owen Davies "Thanks very much for your attendance this morning, and thank you to Rob and Craig for their presentation. We'll wind it up there and invite you to hang around and chat if you have any further questions. Thank you."