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The Bendigo Shareholder - Now a Quarterly

Following an enthusiastic response to February's new-look Bendigo Shareholder, we have decided to publish your newsletter quarterly.

This will enable us to keep you fully up-to-date with Company and Shareholder news throughout the year.

You will receive your newsletters in:

- > **February** (containing the interim result and interim dividend announcement)
- > **May**
- > **August** (incorporating the annual result and final dividend announcement)
- > **November** (including a report on the Annual General Meeting)

Those Shareholders who elect to receive an Annual Report will again receive a concise report in September. Full financial results are available from our website (www.bendigobank.com.au) or by calling our Securities Registry on 1800 646 042 (free call).

Bendigo Bank is committed to keeping you informed about its

operations, progress and financial performance and we always welcome your feedback and questions. Questions and comments of a general nature should be directed to the Company Secretary on 1300 361 911 and matters concerning your shareholding to our Securities Registry.

Shareholder Issues

Shareholder Information Program

Following the success of last year's post-AGM Shareholder information session in Melbourne, we intend to repeat the exercise (subject, of course, to Shareholder interest).

We are also assessing the merits of holding additional sessions to provide Shareholders in other locations with opportunities to hear our result presentation first-hand and to ask questions of the Board.

Further details will be provided in the Notice of Meeting dispatched in September.

Share Buyback Continues

Our on-market buyback of Company shares continues until the end of June or until we reach our desired target.

Part of our active capital management strategy, the buyback will absorb excess capital and so enhance key performance ratios and enhance Shareholder value.

The Bank has appointed brokers to purchase shares during the normal course of daily trading on the Australian Stock Exchange.

Shareholders wishing to sell part or all of their holding should contact their own broker.

Shareholders might view a sale of part or all of their shares as an effective way to realise the cash value of their holding in the Company. Recent changes to the capital gains taxation rules will benefit some holders. Shareholders contemplating a sale should seek independent advice about their tax situation.

Managing Director's Message

2000/2001 Profit Increase Expected

Bendigo Bank will announce its 2000/2001 profit to the Australian Stock Exchange on 6 August. The result will be available to Shareholders online at www.bendigobank.com.au from 10.00 that morning. It will also be detailed in The Bendigo Shareholder mailed to you in mid-August.

We expect our profit to show a reasonable increase on last year, when profit before tax and abnormals was \$47.8 million.

Our result will reflect many factors, including the introduction into the Group of First Australian Building Society, the commencement of our Tasmanian Banking Services joint venture, and the rapid growth of Community Banking, which now holds more than \$800 million in banking business. We have also been buoyed by growth in our core banking arm, with retail deposit growth particularly strong.

The expected profit increase will be achieved despite a business climate made all the more challenging by external factors.

Like all businesses, Bendigo Bank needed to adapt to the new taxation system, the introduction of which imposed on us GST costs which we cannot recoup on banking services, as the Government made financial services exempt. Also, following years of excellent growth, the economy slowed during the latter part of 2000 and early 2001.

In response both to this tapering in economic growth and to international monetary pressures, the Reserve Bank of Australia reduced official interest rates three times in just three months from February, cutting cash rates by a total of 1.25 per cent. In such circumstances, one of Bendigo's greatest strengths – our solid retail

deposit base – actually exerts short-term pressure on our profitability as we balance our responsibilities to our borrowers and depositors. We pass on reductions to our borrowers almost immediately (thereby reducing our income), but it takes us longer to reduce our cost of funds as we must meet our obligations to term depositors. The result is a short-term squeeze on our margin revenues which management is working hard to minimise.

In recent years we have cushioned earnings against margin pressure by introducing value-adding facilities (for example funds management products) and thereby building our non-interest income. As recently as 1995 just 22 per cent of our income was non-interest income; last year it was 33 per cent. Short-term pressures notwithstanding, profit growth continues to be strong and, having worked for the Bendigo for almost 30 years, I cannot remember a time when our prospects were brighter. Just briefly, consider:-

- > Six years ago, when converting to a bank, we had around 150 distribution outlets; today we have 517, including our growing number of Community Bank branches and Tasmanian Banking Services branches plus the prospect of distribution through Elders Rural Bank outlets.
- > In 1995 we were a building society virtually unknown outside Victoria except by reputation. Today we are a bank with a growing national presence and our profile and reputation are excellent.
- > This positioning is reinforced by our focus on helping Customers and communities improve their prospects of success. This is in

no small way due to our staff's willingness to listen to, and work with, our Customers. It is this commitment which will deliver our success.

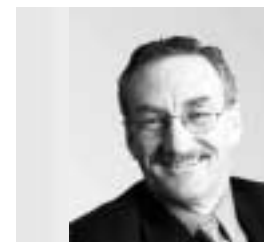
- > New Customers are being attracted to us at record rates, with nearly 35,000 new Customers in the past three months. We encourage all Shareholders to bank with us and take advantage of their Shareholder Privileges.
- > Business volumes are accelerating, with December a record lending month and deposit-taking at record highs.
- > And, of course, we continue to expand our distribution networks through our Queensland branches, Elders Rural Bank, Community Bank branches, Tasmanian Banking Services and our other initiatives.

The result is a bank which is relevant to, and valued by, its Customers and their communities. By retaining this focus – on helping to create success for our Customers and communities – then our future success is assured. We will grow with them, and so will the number of communities we are fortunate enough to serve.

International interest rates are a short-term phenomenon which, as we have seen, can fluctuate quickly. Bendigo Bank's business strategy, on the other hand, is a long-term investment in sustainable success. Our long-term focus has not wavered and is beginning to deliver improved performance, profitability and prospects.



Rob Hunt
Group Managing Director



Queensland Expansion On-track

Bendigo Bank's expansion into Queensland is on-track following last October's merger of First Australian Building Society into our Group.

The last of the 47 branches will be converted to Bendigo Bank signage and systems in early June. First Australian accounts will be converted to equivalent Bendigo Bank accounts on 31 August.

The advent of our company's brand has had immediate impact, with new account openings doubling, and in some cases quadrupling, once branches are rebadged. We are then able to offer customers access to the full range of Bendigo Bank services to help meet their financial goals. This will increase business volumes across our Queensland network as existing customers broaden their banking relationship and new customers are attracted to us.

Our business strategy in the Sunshine State mirrors our approach elsewhere - we seek to improve the prospects of those communities in which we operate.

There was a real fear in Ipswich, the home of First Australian, that the advent of a parent company would lead to the emasculation of the building society's head office.

We have already honored our commitment to build in Ipswich



a new loans centre to process our nationwide lending needs. This centre currently employs 60 people. The East Street Queensland headquarters also houses administrative staff, business banking, south-east Queensland regional office and other support staff. Employment will grow in line with our business in Queensland.

We are working with Ipswich City Council and others on a number of community initiatives. It is our intention to house Australia's second Community Telco there (Bendigo is the pilot project) and the Queensland arm of the Bendigo Bank-backed youth program Lead On will be launched in Ipswich this year. We have also provided an annual information technology scholarship to the Ipswich campus

of the University of Queensland, with which we are involved in other projects too.

Our first Queensland Community Bank branches will open on the Gold Coast, at Biggera Waters and Paradise Point, soon. Others are expected to follow and our program will be accelerated when we base a development team at Ipswich this month.

Bendigo Bank acquired almost 10,000 new Shareholders in the First Australian merger, meaning a quarter of our Shareholders now live in Queensland. Former First Australian, like all shareholders, have now received three dividends, totalling 39 cents per share, in the first seven months of the merger. This has injected more than \$7 million into the Queensland economy.

Above: Bendigo Bank's Chief Operating Officer (Queensland), John Goddard, and Ipswich Deputy Mayor, Cr Paul Pisasale inspect progress work on restoration of the Ipswich head office building.

Rural Banking Services Expanded

Banking services for rural communities have been boosted as we extend our joint venture partnership with Elders.

Bendigo Bank and Elders Rural Bank are now making each other's complementary services available through branches of both companies across the country.

Elders clients can access a wide range of Bendigo Bank services from 240 Elders branches and can use their Elders Rural Bank Visa debit card to transact through Bendigo's 171 branches.

Meanwhile, Bendigo Bank's rural and Community Bank clients gain access to the full range of Elders Rural Bank's specialist farm banking products.

"This swapping of services is a landmark agreement between two banks committed to supporting rural and regional Australians," managing directors Rob Hunt (Bendigo) and Ian Mansbridge (Elders Rural Bank) said in a joint statement.

"It is also the first stepping stone towards complete interchange of services, including on-line transactional banking, for customers of both companies.

"The net result is more choice for clients provided by their local bank outlet. And no matter which product they choose, clients will be directly supporting the local bank branch which contributes to the health of their local economy, since we will swap commissions on products sold through the other bank's branch.

"This is a win for clients, their communities and both banks."

Boost to IT development

\$2.5 million recruitment campaign to more than double in-house system development capacity.

Bendigo Bank has embarked on a \$2.5 million recruitment campaign to more than double its in-house systems development capacity.

During April we advertised nationally for up to 40 programmers and project managers to augment our current 26-person team working on software development projects. The new positions will be added over the next 18 months, with most housed at our Bendigo headquarters. Response to the advertisements was excellent.

"This represents a major investment in skills and capacities to help take our business to the next level,"

Managing Director Rob Hunt said.

"Projects already underway include conversions of acquired businesses, the accelerated rollout of Community Bank, and our various joint venture activities.

"e-commerce is also growing rapidly and we are looking to develop a number of new solutions, including our investigation with MYOB of

opportunities to deliver a range of financial services and efficiencies for the small to medium enterprise sector."

"There is no shortage of exciting projects to test the innovative skills of the people we seek."

Mr Hunt said that in approving the bank's biggest I.T. expansion in seven years, the board was mindful of the need to deliver development projects in a timely and cost-effective way.

"In 1994 we determined that in-house was the way to go and that decision has been more than vindicated in terms of cost, flexibility and development of skills and systems.

"But with our business consistently growing at around 20 per cent per annum and a large number of new projects in the pipeline, there is a clear need to ensure we are adequately resourced to deliver the outcomes our customers and business partners seek."

Community Bank™ hits \$800 million



Above: A fair slice of the population of Boorowa, NSW, turned out to cheer the opening of its Community Bank branch of Bendigo Bank.

"Business and growth targets are ahead of those set by Bendigo Bank..."

Banking business held by Bendigo's Community Bank branches has topped the \$800 million mark.

And with 25 branches expected to open this year, Community Bank is well on its way to achieving a billion dollars in banking business.

Our 41st branch opened in Gingin, WA, this month and by year's end we will have close to 60 operating in five states. When the first Tasmanian Community Bank branch opens either this year or next, every Australian state will host Community Banks.

Chief Manager of Community Banking, Russell Jenkins, said the network had opened well in excess of 70,000 accounts. "Customers have shown an eagerness to embrace locally-owned and controlled banking operations," Mr Jenkins said.

"Business and growth targets are ahead of those set by Bendigo Bank when we first embarked on Community Banking three years ago and there is no shortage of demand for new branches. In fact we are now

asking new callers to be patient with us as we are supporting a large number of communities in various stages of the process."

Most communities take around 12 months to raise awareness, attract pledges of financial support, survey their local banking needs, form a new publicly-owned company and raise start-up capital, employ staff and, finally, open the doors of their new bank branch.

Mr Jenkins said the \$800 million-plus in total business included deposits and loans. One branch, Upwey on Melbourne's eastern fringe, had passed \$50 million in business, with a growing number of the much newer branches pushing rapidly through the \$20 million mark.

"In many cases, business growth is ahead of levels predicted by pre-opening surveys. This is helping communities achieve profitability sooner than anticipated, although their profit progress, like Bendigo's, has been slowed a little by prevailing economic conditions."

Mr Jenkins said Upwey was currently returning its community sustainable monthly operating surpluses of up to \$20,000 with a number of other sites exceeding \$10,000 per month.

"Having secured their local bank, these communities are now seeing flow-on benefits beginning to emerge. Local shopkeepers' takings are up and confidence has returned.

"And with the knowledge that they can make a difference to their community's long-term prospects, they are turning their minds to other ways of harnessing the community will to further improve their circumstances.

"Lang Lang in south Gippsland is a good example. They have already established a suite of offices and have attracted to the town professionals such as lawyers, accountants and a town planner. They are now working to fund a new medical practice.

"Bendigo has always said that Community Banking is about much more than just returning banking services. It is simply the start of a process of engaging and motivating the community to think of other ways in which they can harness their collective talents to improve their prospects."

> Latrobe University Bendigo's Centre for Sustainability is currently studying the economic and social impact Community Bank has had on the first five communities to open branches. We will inform Shareholders of the results, expected this year.

First 'Regional' Investments Near

Sandhurst Trustees' Regional Development Fund No.1 expects to make its first investments in June.

The Fund is currently undertaking due diligence and valuation on four regional companies in which we plan to invest. They are:

- > A Victorian building materials manufacturer
- > A NSW company exporting digital geographic information systems relying on satellite technology
- > A Victorian specialist vehicle manufacturer
- > A Victorian environmental technology group.

All have one thing in common – they have all signed multi-million dollar contracts to supply goods or services to national or international companies. Capital supplied by the Fund will be used to expand their businesses to meet demand already evident.

These initial investments begin to address a gross imbalance in capital distribution in Australia.

Regional Australians export enormous amounts of capital through collective investment structures such as superannuation funds which have little or no way to reinvest back into regional areas. It is estimated that less than one per cent of the \$400 billion held by superannuation funds is invested in regional Australia. Fund managers simply do not have the charter, the local connections, nor the appropriate investment structures, to invest regionally. This distorts the allocation of capital by effectively excluding regional businesses from the process, no matter how good their prospects.

This is the first fund established in Australia which has a pure regional focus. The Fund has been built from the ground up to comply with all regulatory and prudential requirements, and Bendigo's strong regional connections ensure a steady flow of promising investment opportunities.

It makes good sense for the nation to better balance growth between the capital cities and the regions. It will boost our export capacity by allocating capital to profitable businesses with clear growth prospects but which are hamstrung by current capital market inadequacies. And it will enable investors to diversify their portfolios by gaining exposure to hitherto unavailable opportunities.

Make no mistake, though, developing this Fund is hard work. It has required a lot of groundwork to build an investment structure, help businesses to become investor-ready, and to educate the investment community about the prospects available in regional Australia. This process has been like a pre-season for a football team, but every coach knows that premierships are grounded in this preparation. Now, our pre-season is almost finished – we have spoken with nearly 100 companies and identified the best prospects in which to make our initial investments.

We are optimistic about the prospects of this Fund and those businesses in which it invests. This is the first of many funds to come, and we are sure others in regional and rural Australia will also follow with such initiatives once they see there are quality investments to be made. If only 5% of our total superannuation pool were able to be attracted back to small to medium enterprises in regional Australia, a substantial change could be effected. Those businesses can be the engine room for innovation, creation and employment into the future.

Why is Bendigo Bank taking a leading role in promoting regional development? Because our success depends on the success of those communities we bank. If we can improve the prospects of regional Australia competing vigorously in the new global economy then our long-term prospects will be significantly enhanced.

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