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> 2002

THE BENDIGO SHAREHOLDER

> Gaining momentum  
Investing in a sustainable future

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 **Bendigo Bank**

# 137<sup>th</sup> Annual General Meeting

## CHAIRMAN'S ADDRESS by Richard A. Guy OAM

BENDIGO BANK  
137TH ANNUAL GENERAL MEETING  
CAPITAL THEATRE, BENDIGO  
28 OCTOBER 2002

In attendance:

Voting Shareholders including Directors	291
Non Voting Shareholders	35
Visitors	32
<b>Total</b>	<b>358</b>

Just over a month ago now, we experienced a significant moment in the life of this Company.

On September 17<sup>th</sup>, at 11.36am, a trade in Bendigo Bank shares was settled on the Australian Stock Exchange computer system. With that keystroke, Bendigo Bank became a billion-dollar company. At that precise moment, we had 120,054,167 fully-paid, listed shares on issue. Multiplied by a share price of \$8.33, that meant our market capitalisation at that point nudged over the one billion dollar mark for the first time.

That made us the 108<sup>th</sup> largest company in Australia.

When we ticked over the billion, we made no song and dance. Nor do we boast about it now. Given the vicissitudes of the stockmarket, today's billion-dollar rooster can be tomorrow's half-billion dollar feather duster, and in fact since the billion-dollar day our value has fluctuated above and below that milestone. Nevertheless, achieving that valuation was a milestone for your Company and one about which I think we ought to be entitled to feel a small surge of pride. We are living proof that a leading Australian company can be successfully based in a regional city.

Our regional base is our key strength. Our directors and senior managers are close to their community. Every day we rub shoulders with our customers and shareholders. We share their ambitions. We understand their needs. We have a keen appreciation of their views on corporate behavior and responsibility.

Shareholders might have noted in the media in the past few weeks that the Company is currently reviewing its property needs across Australia, with a view to consolidating operations which are currently spread across multiple sites, even within the one city. This review naturally includes our head office here in Bendigo. Our growth has been so rapid that head office functions have had to be housed in five major sites. That is not efficient and is counterproductive to our corporate culture.

But while our property review will seek to redress this, it will not question Bendigo's head office status. Our Company bears this city's name. We are its leading corporate citizen, employing more than 600 local people and making a major contribution to Bendigo's economy and society. We proudly commit ourselves to continue to call Bendigo home.

As we noted in your Concise Annual Report, Bendigo Bank is continuing to gain momentum.

It is sometimes difficult to believe that less than a quarter of a century has passed since Bendigo Building Society boasted just one branch. In 1978, Brian Thomas kick-started an expansion program which saw us begin – literally – to branch out. Branch numbers grew to 74 by 1995, at bank conversion, and now have tripled that number, to more than 220, as we broaden our interstate presence.

Momentum! The staff in 1978 used to be able to meet in one tea room. Today we employ 2000 Australians. We vividly remember popping champagne when the old society's assets reached one billion dollars – last year we loaned \$3.6 billion and our assets under management exceeded \$10 billion for the first time.

We can now also measure momentum by those values shareholders hold dear to their hearts – profits and dividends. Our profit progression since bank conversion has been steady rather than spectacular, but over the past two years you can begin to see the momentum increasing. After-tax profit in the past financial year grew by 47 per cent; on top of a 56 per cent increase in the previous year.

Growth in your dividend is gaining momentum, too – a three-cent-per-share increase last year on top of a two-cent increase the year before. (I should remind you, too, of the 15-cent special dividend you received in 2001.)

That most reluctant of performance measures on our books – return on equity – is also showing signs of shaking off its lethargy. Last year, we signalled our aim to grow ROE by one per cent. (Sounds easy, but it was a tall order on shareholder equity of \$422 million.) This aim was achieved, admittedly off a low base, with ROE increasing from 9.4 per cent to 10.6 per cent. We aim for a similar increase this year.

Our progress has been acknowledged by international credit rating agency Standard & Poor's, which in May this year lifted the Bank's long-term credit rating to triple-B and our short-term rating to A-2. This credit upgrade improves our capacity to borrow wholesale funds, should reduce the cost of those funds, and potentially improves our profitability and helps sustain our earnings momentum.

Momentum, of course, requires an initial effort to produce it. Runners and cyclists require the push from their leg muscles; spaceships require the propulsion from their rockets; a bank requires a combination of factors – strategy, investment, systems, people and, not the least, an operating environment conducive to its strategy. Runners, cyclists, and even rockets, can generate explosive power which rapidly builds momentum to top speed. A bank, on the other hand, is a large, cumbersome entity requiring massive and sustained energy to build momentum.

In our case, that energy has been imparted through:

- > A clear and focused strategy which has been consistent for a number of years
- > An innovative approach
- > An eagerness to work with community at a time when such commitment is valued
- > A heavy and sustained investment program, and ...
- > A willingness to extend our community enhancement activities beyond banking in order to increase our relevance and so grow our customer base and market share.

The great 17<sup>th</sup> century physicist Sir Isaac Newton said: “If I have seen further it is by standing on the shoulders of giants”. This is equally true of Bendigo Bank. Our strategy is only made possible by our history and the corporate culture it spawned. Our chosen path is to be a customer and community focused bank. Our strengths are our regional base, our core banking skills, our empathy with the aims of our customers, and our acknowledgment of the strength of community and what that can bring to our business. Our strategy plays to these strengths.



Following the meeting, refreshments were served at the adjacent Bendigo Art Gallery. Here, Chairman Richard Guy (centre) chats with shareholders John and Jean Hitch, from Mt Macedon, Victoria.



Bendigo "Bendigo" shareholders (from left) Clarice Cowling, Lynette and David Heyward and Arthur Cowling.

It acknowledges that we cannot be everything to everyone. It acknowledges that we have limitations and that others have strengths that we do not. It seeks to grow value for shareholders by reaching into new markets which are responsive to the Bendigo way and in which we believe we can excel.

Computer guru Alan Kay said the best way to predict the future is to invent it. As a relatively small bank competing against much larger competitors, we need to be innovative. Simply aping the strategies of competitors does not work when they are 20 times larger. Where necessary, then, we have purpose-built banking models which harness our strengths to those of partners who can provide us with entrée into new markets. Community Bank is the best-known example and I will talk about that in a moment. But there are others, such as Elders Rural Bank, Tasmanian Banking Services, Guild Banking and Community Sector Banking.

Elders Rural Bank grew from our desire to support farming communities. This presented us with challenges. We had banking expertise and a desire to respond to the needs of rural communities; Elders had the same desire and a wide network of branches and specialist field agents. By putting the two together into Elders Rural Bank, we created a bank committed to agribusiness and which is making a difference in rural Australia. Every

dollar of the \$1.2 billion in deposits raised by ERB has been reinvested into farms and enterprises in the country. In just its second full year as a bank, ERB last year made an after-tax profit of \$16 million and we were entitled to 50 per cent of that as dividend. It is a small bank, but gaining its own momentum – and growing.

In Tasmania, we knew there was demand for a local bank following the demise of Trust Bank. Again, we acknowledged that we could not satisfy this demand alone, so we formed a joint venture with Tasmanian Trustees to create Tasmanian Banking Services. While this venture has taken a little longer than we hoped to gain momentum, we now have five branches operating and the prospect of faster growth as a result of the merger between Tasmanian Trustees and Perpetual Trustees. This has created a billion-dollar trustee business and a consequently larger customer base to which to offer banking services.

Less heralded is our innovative model to bank Australia's pharmacists. Guild Banking is a quiet achiever but it, too, is building momentum, now having written more than \$80 million in business and contributing to our profit.

In July this year we launched another initiative, Community Sector Banking, which has excellent potential. A joint venture between Bendigo Bank and 19 not-for-profit groups under the



Queensland-based Director Terry O'Dwyer (right) talks with John and Mary Gemmell, from Brighton in Victoria.

banner of Community 21, Community Sector Banking is a specialist banker to Australia's not-for-profit sector. This sector plays a vital role in our community by bringing services to needy Australians. Our banking agreement enables the sector to generate revenue from its own banking, thereby increasing its funding. We are also developing banking products tailored to the sector's needs. These factors provide sector members with clear incentives to bank with Community Sector Banking, thereby increasing Bendigo Bank's overall market share.

There is a commonality in all these innovations: Bendigo Bank is happy to share revenue with partners who bring to banking arrangements strengths we do not have. In these instances, our partners can muster more customers, more business, than Bendigo can by acting alone. We are therefore happy to share the rewards in acknowledgment of the responsibilities they are prepared to accept.

Nowhere is this approach more in evidence than in Community Banking, where communities have proven to be more than willing – and able – to share the responsibility of creating a new enterprise in order to secure their bank and to share in the rewards it delivers.

Make no mistake, Community Bank is not an easy strategy to implement. It requires of Bendigo Bank special skills and special people to make it work. Each of the almost 200 communities with which we have worked to date have their own identity, their own aims, their own challenges, and their own idiosyncrasies ... each of them wants to do things a little bit differently. On average it takes around 18 months for each community to achieve its Community Bank branch. That's a big investment of their time and energy, and of ours. But it's worth it for both parties.

Community Bank is an outstanding success for Bendigo Bank. It has raised our profile across Australia. It has stamped the uniqueness of our strategy. It has helped us expand our branch network much faster than we could otherwise have done. It has helped swell our customer numbers by more than 10,000 each month over a lengthy period. It has swollen our retail deposit base to the point where 90 per cent of our funding is retail, a significant strength. Community Bank helps us build momentum – while we are opening new branches in new regions we will always be growing our deposit and lending books.

Talk about building momentum! Community Bank began in June 1998 with two branches in Rupanyup and Minyip. A year later there were 12 branches. In 1999/2000 we opened 13 more; the following year 22 branches. Last year we opened 29; this year we aim for 30-plus.

Our first billion dollars of business took three years; the second billion dollars just one year. We now commonly see weeks in which Community Bank grows by \$25 million-plus. Finally, Community Banking is now generating earnings momentum for our Group – a post-tax contribution of \$1.7 million in financial year 2001, \$5.4 million last year and we expect an increase in the order of 30 per cent this year.

All of the initiatives I have spoken about are now generating momentum, and momentum, as we noted, requires an initial impetus – in our case, investment.

Bendigo Bank has invested heavily in creating and nurturing these businesses to the point where they are generating increasing earnings. We have been criticised for investing too much, because investments manifest themselves as costs on the profit and loss statement. There is no doubt that our cost-to-income ratio – which has been stuck in the 70 to 72 per cent

range for some years – has been high when measured against other banks. I caution, however, that cost-to-income is a crude measure when devoid of analysis.

The costs of running our business can be broken into two types – operational (the cost of keeping the everyday functions ticking over) and investments in initiatives to produce future income growth.

We have made many investments – branch systems, e-banking and Phone Bank platforms, ERB, Community Bank, Tasmanian Banking Services, Community Sector Banking ... the list goes on. All are substantial, but equally, all have substantial upside. These are the initiatives which are delivering our Company the fastest growth in the Australian banking sector. They are investments which are generating the earnings momentum which is producing improved profitability. A cost-to-income ratio can be driven downwards just as easily by earnings growth as by expense reductions.

So while our costs will continue to increase to service our rapid growth, we expect earnings to increase at a faster rate. We have a five-year goal to reduce our cost-to-income ratio from its current level of 70.5 per cent to the low 60s.

If we are mindful of cost growth, why then do we continue to invest in initiatives which broaden our support for communities beyond the provision of financial services? Why would a bank wish to take a leading role in the development of community-owned telecommunications companies? Why are we in the advance guard of initiatives to return capital to regional businesses? Why commit funds to the Lead On youth development program? Why run a strategic development unit which is working on a raft of other initiatives to improve the prospects of communities we serve?



These are all investments in positioning Bendigo Bank for sustainable long-term success. As I said earlier, we are not a large bank and we cannot compete on a price/volume basis with the big banks. Where we can excel, however, is in meeting the growing demand for companies prepared to focus on whole-of-community solutions to grow and sustain their customer bases. Our community enhancement initiatives are increasing our relevance in the communities we serve. They are attracting many new communities and customers to us.

Bendigo Bank's reputation, and willingness to work at a community level, affords us an unprecedented opportunity to broaden and grow our business. We are determined to capitalise on this opportunity. Having developed some momentum, we are investing in order to continue to build and sustain shareholder earnings over a long period of time.

I want to stress that our initiatives are not philanthropic. Yes, they aim to improve the prospects of customers and communities, but to our benefit as well – successful customers and successful communities create a successful bank. We also hold the view that these initiatives must be commercially viable in order to be sustainable.

Community Bank is profitable for us and will be increasingly so. The pilot Community Telco in Bendigo began recording trading surpluses after just 12 months and all the other new businesses developed with alliance partners or communities are commercial ventures from which we expect to derive returns.

Our growth in the Bank has been rapid – five-fold in just seven years. New companies have been merged into our Group, new markets opened, new alliances forged and new products and services introduced. It is credit to our

management and staff that this has been achieved without compromising the Bendigo way of banking.

#### Looking ahead

Bendigo Bank's rapid growth is projected to continue and we need to ensure the Company is properly structured to accommodate it. Our Executive team is currently finalising a major review, dubbed Shaping To Grow, which will shape our operations for the next five years and beyond.

Turning to the Bank's performance, we are already four months into this financial year and are on track with our challenging budget. We expect to further increase profit performance and improve key ratios such as return on equity, return on assets, cost-to-income and earnings per share. Improvements will be driven by continuing strong asset and liability growth together with a range of investment activities to secure revenue growth in future years.

We are, however, cautious of the business climate in the light of uncertainties produced by international circumstances and widespread drought conditions in Australia. Events such as these do affect sections of our economy and we are watchful for any impact on our business.

We expect to continue our strong margin performance given our strong retail deposit base and customer growth.

We expect continued improvement in contributions from our alliance activities with Elders Rural Bank and Tasmanian Banking Services, and expect there will be further like activities over the course of the year (for example, Community Sector Banking).

We expect continued growth and demand for Community Banks and co-owned branches (at least 30 new sites) – thereby continuing to increase our distribution network and customer franchise.

Our proprietary branch network, too, will continue to expand. Now boasting strong networks in Victoria and Queensland, our focus is on NSW, and its capital, Sydney.

We expect further embracing of our on-line services by our customer base (particularly with some new internet technology we will be introducing).

We expect the market to begin to better understand the strength of our strategy in terms of market value and positioning. We expect to demonstrate an improved capacity to strengthen our own capital base with improved profit performance.

Bendigo Bank is Australia's only regionally-based bank and is recognised for its community engagement activities, its customer focus and for its honest and ethical approach to business. This creates a strong demand for our services and presence in markets across Australia. The fact that half of our current branches have carried the Bendigo brand for just two years or less – and that the Elders Rural Bank, Tasmanian joint venture activities and our e-Bank solutions are all in their early years of development – augurs well for strong revenue growth into the future.

I would like to conclude this section of my address with a quotation which I think typifies the strategy of Bendigo Bank. I read the following quote in a book given to me for Father's Day by my younger daughter: "It is hard to make money. It is even harder to make a difference." I would like to think Bendigo Bank is doing both. Through our commitment to community development, in shopping strips and towns right across this great nation of ours, we are making a difference and now through our improving financial performance, we are also making some money.

Your Company is very healthy and its future looks bright.



Director Neal Axelby (right) shares a cup of tea with Beryl Jilbert and Frank Coade, both from Bendigo.



The Bank's Deputy Chairman, Robert Johanson, with shareholder Clementa O'Brien.

## SHAREHOLDER QUESTIONS

Following are answers to some of the questions asked at the AGM. Replies have been edited for clarity and to add additional information where pertinent.

**Q.** In relation to Bendigo Bank's Elders Rural Bank venture – will there be any affect in relation to the drought?

**A.** Everyone in Australia will be affected by the drought. If there is a slow down in the economy, it will affect us all in some way. Elders Rural Bank lends to farmers. Twelve months ago the amount of seasonal lending was relatively small because farmers had tremendous cash flows from several successful seasons in a row and there was no need for them to borrow from a bank.

Given poor cash flows this season, we could even anticipate increased business from farmers needing to borrow, so in fact ERB could find increased demand for its products and services as a result of the drought.

**Q.** Last year you reported the Bank would appeal a court ruling in the case brought by the Fried family. Has there been any outcome?

**A.** Yes we appealed the court's decision and we were successful in recovering \$2 million less expenses associated with the appeal of \$500,000. This was disclosed on P34 of the 2002 Concise Annual Report.

**Q.** Bendigo Bank needs to be vigilant to ensure the boards of Community Bank companies are well run and do not expose us to risk.

**A.** We are very mindful of this. Communities undertake a rigorous process before securing their community branch and we engage directors and boards in an ongoing educational process to enhance the governance of Community Banks. We are also helping prepare local companies for listing on the Bendigo Stock Exchange, which will make their operations even more transparent and accountable.

**Q.** Why is Bendigo continuing to open new branches, and do we set performance targets for these businesses?

**A.** We are expanding our services to capitalise on the strong demand for the Bendigo style of banking. New customer numbers have been running at 10,000-plus per month for over a year now and we see no slackening in demand. All existing and new business activities, including new branches, are assessed for their ability to improve the Bank's return on equity ratio.

**Q.** How might the Bank be affected by a postulated slowdown in the housing market?

**A.** While we do anticipate some slowing of lending demand, we have continued to diversify our revenue streams and are also

focussing on business banking and other activities – including joint ventures and wealth management – to complement our housing revenue. As many of our branches are relatively new, and we continue to add further branches to our network, we can expect strong lending growth to continue.

The following questions were submitted on sheets provided with the Notice of Meeting mailed to shareholders in September.

**Q:** Does the bank have strategies to combat a possible takeover?

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

1. Performance – ours has been subdued due to our heavy investment program but is now improving strongly;
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. And our prospects – which we believe are excellent given the continued strong demand for the Bendigo style of banking.

**Q:** How does the bank ensure the independence of its auditor?

**A:** Our audit committee is responsible for monitoring our external audit arrangements. The Bank's external auditors are required to report to the audit committee twice during the year on various matters associated with audit independence. These include the provision of non-audit services and aggregate amounts of fees paid. The Bank has also adopted and monitors a policy in respect to audit independence.

**Q:** Does the bank have any Director and executive remuneration arrangements which are not disclosed?

**A:** The bank does not have Director or executive share options. All remuneration details were contained in the Bank's Concise Annual Report.

**Q:** A number of shareholders asked about the likely impact of the drought on the bank.

**A:** Events such as the drought do affect sections of the community and we are watchful for any impact on our business. Nevertheless, we

expect to further increase profit performance and improve key ratios such as return on equity, return on assets, cost-to-income and earnings per share.

**Q:** Several shareholders asked questions about our Employee Share Plan – why we offer it and whether it affects shareholder value.

**A:** The plan is a strategic arrangement, approved by shareholders every three years, and is designed to promote a closer alignment of employee and shareholder objectives, and hence generate improved shareholder returns. Issues are undertaken on a proportional basis to all staff, including, junior staff based in the bank's mailroom. Executive officers and senior management also participate in the staff share issues. The majority of shares issued under the scheme are held by non-executive staff members. We included a disclosure in this year's Concise Annual Report to provide an indicative guide to the very marginal dilutionary impact of the scheme on shareholder returns. We strongly believe that the benefits of the scheme far outweigh this impact.



The star attraction at the shareholder function was Mr Beaver from the forthcoming stage production of the C.S. Lewis family classic *The Lion, The Witch & The Wardrobe*, of which the Bank is the major sponsor. Like all in attendance at the AGM, Faolan Leggatt, of Seville in Victoria, found Mr Beaver highly amusing.

Bendigo Bank shareholders and customers are entitled to a discounted price of \$188 on an A Reserve family ticket (two adults, two children) by calling 1300 136 166 and quoting the password "Bendigo Bank".

This offer is valid for shows at Melbourne's State Theatre from 1-12 January 2003.

## Building your share

We encourage all shareholders to build the value of their holding in Bendigo Bank.

This particularly applies to shareholders who do not currently hold a marketable parcel of shares (ie. market value of less than \$500).

We invite you to talk with our Share Registry on 1800 646 042 about strategies - including participation in our Dividend Reinvestment Plan - to build your shareholding and so take advantage of growth in the value of the Company.



**Bendigo Bank Limited**  
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