Bendigo Bank

A REWARDING FOCUS

THE BENDIGO SHAREHOLDER NOVEMBER 2003

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INSIDE THIS ISSUE

BENDIGO BANK
138TH ANNUAL GENERAL MEETING

27 OCTOBER 2003

Chairman Richard Guy OAM with Stephen Hart and Chris Harkin, both from Victoria's Otways region.

More than 320 Shareholders attended the Bank's 138th Annual General Meeting, held in Bendigo, Victoria. A further 263 Shareholders viewed the meeting online, either live or later that day.

We received almost 200 written questions prior to the meeting. These were either answered by the Chairman at the meeting, referred to the appropriate Chief General Manager, or replied to personally. We thank those Shareholders who asked questions and encourage this involvement in your Company.

The meeting unanimously re-elected retiring Directors Neal Axelby, Jenny Dawson and Terry O'Dwyer. Responding, Mr O'Dwyer thanked Shareholders for their confidence and support.

Shareholders present also voted overwhelmingly to support the motion allotting 100,000 shares, and an interest-free loan, to Managing Director Rob Hunt under the rules of the Staff Share Purchase Plan. The Chairman received 26 million proxies on this issue, with just over four million shares voted against the motion. An offer under the Plan will be made immediately to Mr Hunt. If he accepts, the shares will be issued at the average closing price on the five trading days prior to their allotment. Had the shares been allotted on the day of the AGM, this price would have been $8.83.

A report of the meeting begins on page 3 with the Chairman's Address.

CHAIRMAN'S ADDRESS

MR RICHARD A. GUY OAM

Today marks my 18th Chairman's address to you, the owners of this Company, and I can report that we have never been in better shape.

The numbers today will speak for themselves – lending, deposits, customer numbers and earnings per share have all reached record highs.

While I will review our performance in these areas, I also wish to take you behind the raw numbers to show how they were achieved, what they really mean and what they indicate about our future. We have excellent prospects as long as we maintain our focus on helping create success for our customers and communities.

You will have noted the title of this year's Concise Annual Report – "A Rewarding Focus". This had a deliberate double meaning – we want the various stakeholders in our business to be rewarded financially but also to be comfortable about the way in which we conduct our business. Today I will outline our financial progress but also speak of those less tangible aspects of our business which we hope make Bendigo Bank a unique and satisfying experience for customers, communities, staff and for you, our shareholders.

At last year's meeting we spoke of "a growing momentum" in our Company. That momentum has not slackened. Net growth in customers during the past year was 13 per cent, or 95,000. That's an MCG-full of new people who have joined us … even with all the new seats! This trend has been evident now for more than two years and is not slowing. By the time we meet next year, we should be within sight of the magical million customers.

This influx of new customers helped us increase retail deposits by 20 per cent, or $1.3 billion of new money. These deposits now comprise 93 per cent of total Group deposits. What does that mean? Effectively, it means a cheaper source of funding for our lending activities, as otherwise we would have to obtain more expensive funding from the money market.

Lending approvals reached record highs – $4.82 billion. That's almost three times the size of our entire loan book when we became a bank just eight years ago. It means we approved more than $19 million for every day of the working year.

Those growth figures show that our strategies are working, but they are not the full story. I note that in each market we have entered, we have succeeded in raising deposits in much the same proportion as our lending. This reveals two things. Firstly, it shows we are succeeding in establishing the Bendigo name across Australia. The numbers in our newer States are modest, yes, but even as recently as three years ago they would barely have registered outside Victoria.

Secondly, this indicates the public's trust in the Bendigo name – even for those customers to whom we are new. In these buoyant times of low interest rates and rising property values, anyone can lend money interstate – customers tend not to worry about which lender they need to pay back. It is quite a different matter, though, to raise deposits, since people will only deposit their hard-earned savings with an institution they trust. That says to us that branch banking remains a sound and viable strategy - that we are trusted, and rewarded, for the faith we show in establishing a bricks and mortar presence in the communities we are privileged to serve.

My remark about customers not caring from whom they borrow was not intended to be flippant or dismissive, because at some time in the future their choice of lender might well be important to them. We place great store on Bendigo's ability to manage customers through difficult times as well as good times. Our Mortgage Help Centre does a marvellous job in helping those customers whom, for whatever reason – employment, sickness, accident – hit a rocky patch.

This empathy with customers has been a strong part of the Bendigo appeal since our Company was formed in 1858 and it continues to stand us in good stead with the public today. I might add, it is also good business, since our asset quality continues to be strong. In the past three years, our total assets have almost doubled and yet our specific provisions (that is, provisions against loans about which we have some concerns) have remained virtually static. In fact the percentage of specific provisions to total loans today is around one-third of the same measure three years ago, clearly demonstrating continuing improvement in asset quality.

I said earlier we needed to look behind the numbers to reveal the real strength of our strategy.

One of those numbers is not often talked about, except to note its general decline across the financial industry. I speak of the "margin" – the small but crucial difference between the return we pay to depositors and the return we receive from borrowers. Our margin, too, declined from the late 1990s after financial deregulation opened the market to a wide array of competitors. But while this trend continues in many quarters, our margin actually improved slightly – from 2.68 per cent to 2.76 per cent – during the past year.

The significance of this achievement should not be underrated, as it indicates the strength of our brand and positioning. Margin is particularly difficult to grow in times of sustained low interest rates. Our ability to do so says to us that we made a sound judgment call six years ago when we faced a choice between becoming a "price/volume" trader – a long-term strategy ill-suited to a small bank – or a "value" trader which receives a fair price for service provided. It suggests customers recognise they receive value for money when they bank Bendigo.

Deputy Chairman Robert Johanson with Adelaide-based shareholders Marilyn and Tony Cole.

This is further evidenced by the success of our consolidated Wealth Management Division, launched in 2002 on to a stormy sea of battered stock markets. So well was the Bendigo name received that we increased funds under management by more than one-third and the contribution to our profit result by 41 per cent, as some economies of scale cut in.

Wholly owned subsidiary Sandhurst Trustees led the way in our Wealth Management Division, growing funds under management by 35 per cent to $1.7 billion. This strong performance saw Sandhurst feature for the first time in Australia's top 10 managers for quarterly retail funds inflow, which is an excellent achievement for such a small company and again says much about the value of our brand.

Just last month, the independent rating agency Assirt Research rated the overall Sandhurst business as "strong" and its investment management capability for mortgages as "very strong". Sandhurst's risk management in respect of mortgages was described as not only meeting best practice but establishing the industry benchmark. These ratings will engender further investor confidence in our managed funds offerings.

Choosing to build value in our brand through quality customer service and a commitment to community set a clear course for the Company's future. It committed us to a heavy investment program to build the distribution channels, the products and the skills to provide a full suite of financial products – and other solutions – to a wide range of communities. In effect, we committed to a long-term strategy at some cost to short-term gains. The investments we needed to make curtailed profit growth, added cost and put pressure on our cost-to-income ratio. This attracted criticism in some quarters, but again needs perspective.

Shareholders who have supported our strategy have been rewarded with good dividends and capital gains. In fact over the five years to November 2002, Bendigo Bank was the 16th best-performed public company in Australia as measured by global financial information company Bloomberg. A shareholder who invested in us in November 1997, and who reinvested their dividends, saw their wealth increase by 188 per cent over that time.

That is an excellent return in anyone's books. Since 2002, of course, that value has continued to grow.

> Our 2002/03 after-tax profit of $59 million was a 21 per cent increase on the year before.

> Earnings per share grew by 14 per cent, to almost 47 cents, continuing a strong upward trend.

> Shareholders received an extra 4.5 cents per share in dividends this year, a 15 per cent increase. The market responded to this profit announcement by pushing our shares to nine dollars for the first time. While the market is notoriously fickle, our market capitalisation has settled above one billion dollars for some time.

So I believe we are succeeding in growing your wealth.

And we are doing so because by committing to deliver to communities value beyond our banking function, we have a clear vision of where we want to go. We recognise our strengths are in our abilities to provide quality service, to work with communities, and most difficult of all, to take on partners with complementary skills. Our strategy therefore plays to these strengths, rather than copying the strategies of others.

Make no mistake, though, this strategy is not easy to implement and we have much hard work ahead of us. Nor will we be given free reign by our competitors to do as we please. As you know, we have been rapidly growing our branch network. Much larger competitors are now re-evaluating the value of branch banking and customer service and we cannot assume we will be unchallenged in the territory we have staked out.

All the more reason to continue to improve that value proposition we offer to those communities which partner us in Community Banking, or which host a company owned Bendigo Bank branch, and we continue to make investments in doing so.

At last month's National Community Bank Conference here in Bendigo, we foreshadowed that our community partners would be offered the chance to provide competitive telecommunications services to their businesses through an arrangement with our subsidiary Community Telco Australia.

We believe reductions of up to 20 per cent in telecommunications costs are achieveable, providing a big boost to local business in towns and suburbs in which we provide the banking. Our aim is to encourage local ownership and participation; to help them realise the benefit of their combined buying power and so retain more capital in their district. Helping to make these businesses more competitive will clearly benefit our business – successful customers and successful communities create a successful bank.

This Telco initiative is our first step in helping these communities to redefine their local marketplace by changing the way in which they interact with key service providers. We aim to harness the buying capacity of the entire Community Bank network to win a better deal for all. If we succeed, we will further differentiate our offering from banking competitors.

Our endeavors have been helped by the securing of trademark registration for the term "Community Bank". We have put real meaning into the term "Community Bank" and registered the name until 2011. This recognises the success we have had in establishing the 111-strong Community Bank branch network, and helps us to protect the value which has been created for Bendigo and our communities.

I cannot stress how important it is that our partners share in our success, for you cannot have sustainable partnerships built on inequality. Clearly, our communities are benefitting from their association with us.

Let us spend a moment to look at some of their numbers.

> Last year, the local companies which operate Community Bank branches generated trading surpluses of $4.5 million.

> They have already ploughed $3 million in profits back into their local economies.

> They have created more than 500 jobs, many of them in towns in which every job is precious.

> They spend $30 million a year locally in wages and services. They sponsor local clubs and events.

Why is all this important to Bendigo Bank? For two reasons.

Firstly, because securing the sustainability of each of these local enterprises helps secure sustainable and growing success for us. Secondly, because other communities are watching these developments with interest and a growing attraction to the value proposition we offer. Last year we opened 31 Community Bank branches; this year will be a similar number and the following year probably a similar number again.

There is also opportunity beyond geographic communities.

Already, Guild Banking and Community Sector Banking are established businesses serving discrete but geographically scattered communities of similar interest, and further opportunities are likely to arise.

Elders Rural Bank, a joint venture between Bendigo and Futuris Corporation, continues to grow. ERB emphasises the importance of our relationship with companies which have complementary skills. This year, ERB recorded an after-tax profit of $19 million, an increase of almost 19 per cent on the year before. The result was achieved despite a severe drought which affected much of the nation.

And our joint venture with Tasmanian Perpetual Trustees has achieved monthly operating surpluses in just its third year of operation. With five Tasmanian Banking Services branches in the Apple Isle, we are combining the trustee company's knowledge of its community with Bendigo's banking expertise to provide a solution which is half locally owned and retains capital in an economy which has suffered many setbacks in the past decade.

In the future, we expect that opportunities to work with other partners will arise from other quarters, too. The entire finance industry is currently examining the best way to cope with increasing competition, regulation and compliance, which are imposing challenges and costs on all of us. We are leveraging those costs across our ever-growing branch and e-banking networks, but many smaller organisations cannot.

As we did when approached by First Australian Building Society in 2000, and by others during the 1990s, we will remain receptive to proposals which improve the prospects of customers and communities served by other organisations. We will only do so, however, if it clearly adds sustainable value both for our shareholders and the communities involved.

The rapid growth and diversification across the Group has led to a re-think of staff accommodation. Today, our head office here in Bendigo is actually spread across five buildings, no one of which can accommodate all of our people. In Melbourne, our staff work from four different buildings.

I am pleased to report that after months of investigating potential head office sites throughout Bendigo, a decision has been made to consolidate our Bendigo head office departments at Fountain Court. Additional buildings and land have been purchased and our early plans will involve the existing Head Office expanding along Bath Lane, creating an attractive precinct which we hope will be a showpiece for the city. The plans also include a multi-storey carpark.

In Melbourne, a lease has been confirmed at a building to be purpose-built near Telstra Dome in the Docklands.

These are essential investments, in both a logistical sense and to ensure we retain our unique culture by bringing our teams together.

I would now like to address a number of corporate developments relevant to our business.

We stated in our Concise Annual Report that we were progressing towards the lodgement of Australian Financial Service licences for Bendigo Bank and a number of its subsidiary companies. I am pleased to report that these licence applications were lodged on schedule in September. I would like to take this opportunity to acknowledge the work of the staff involved in this massive and costly process.

The sharing of supervision costs amongst Authorised Deposit Taking Institutions is one issue about which your Bank continues to make representations to the Federal Government. We have submitted that the current system is fundamentally unfair because Bendigo Bank pays 82 per cent of the supervision charge paid by banks with asset bases 40 times larger than ours. Given the complexity of the operations of the major banks, we don't believe it is credible that the cost of supervision of a regional bank could be similar to that of the majors and we will continue to argue our position.

Shareholders may be aware that in recent years the Bank's external audit has been jointly conducted by two firms, Ernst & Young and Richmond, Sinnott & Delahunty. While this has worked well, it was important that we review the arrangement in the light of future audit requirements. This review has determined that the Company's interests will be best served by a single audit firm. We have therefore appointed Ernst & Young as the sole external auditor for the Group, subject to ASIC approval of the new arrangement.

The Group has enjoyed a long relationship with Richmond Sinnott & Delahunty and its antecedents. I wish to extend the Board's appreciation to the firm for the contribution it has made to the Group and the audit function over many years. Our respect for RSD's abilities is such that we believe significant opportunities for new work will arise now that it is unencumbered by issues of audit independence. We look forward to our continuing association.

The issue of corporate governance has been an area of significant focus following a number of highly publicised corporate collapses. In March this year, the ASX corporate governance council released its "Principles of Good Corporate Governance and Best Practice Recommendations". The Bank in its next Concise Annual Report will be required to report on its corporate governance practices by reference to these principles.

The guidelines include a number of recommendations on the independence of Directors. We have implemented a process, overseen by our corporate governance committee, to review our own structures and policies against the ASX guidelines. This process to date has included a review of the independence of the Bank's non-executive Directors. The assessment has been made on the basis of the Board's own definition of independence as disclosed in the corporate governance section of the 2003 Concise Annual Report. This process has recently been completed, with the Board assessing each of the non-executive Directors as being independent.

On the subject of corporate governance, recommendation 4.3 of the ASX Corporate Governance guidelines states that an audit committee should only comprise non-executive directors. I wish to report that since the preparation of the Bank's 2003 Concise Annual Report, membership of the Board Audit Committee has been amended so that the committee membership no longer includes the Group Managing Director.

Public companies generally are changing the traditional practice of paying retirement benefits to non-executive directors. Our current non-executive Directors are entitled to receive a benefit when they retire from the Board, but this benefit is under review. The Board will also evaluate appropriate arrangements for any future non-executive directors.

Finally today, I wish to pay tribute to the real essence that sets Bendigo apart – our people.

Firstly, I wish to acknowledge my fellow Directors for their support and guidance. We are a cohesive group fired by a singular determination to pursue the course we have set for the Company, and all Directors, each with their varying skills, make a telling contribution.

I also thank the more than 2500 men and women who currently represent your Company as staff of the Bendigo or Community Bank companies. Our staff have the banking expertise and skills – and the empathetic attitude – required to help our customers achieve their financial goals.

I wish to acknowledge and thank our Managing Director, Mr Rob Hunt. Rob is a rare combination, a visionary and a pragmatist who can not only see what is possible but also he can make it happen. He also sets standards of ethics and behavior which act as a model to all staff. Sometimes one sees leaders who command respect; Rob earns respect from all with whom he comes in contact.

Finally, I want to say something which is long, long overdue. I have served on this Board now for more than 21 years and I cannot recall ever having previously publicly thanked my wife Claire for her support, understanding, tolerance and her acceptance of my role at Bendigo Bank. I could not begin to do this job without Claire's unqualified backing. So, 21 years late, I thank you Claire for your support.

As I said at the beginning of this address, your Company has never been in better shape … but we continue to seek improvement. Your Board is working hard to turn what is already a good Company, into a great one, as described by author Jim Collins in his recent book "Good to Great".

ANNUAL GENERAL MEETING QUESTIONS AND ANSWERS

27 OCTOBER 2003

This is an edited version of questions asked, and answers provided, prior to and at the AGM. Further questions and answers will appear in the February 2004 newsletter. We have also directly responded to many shareholders.

Q: Is there a way in which shareholders can support investment into regional property development and derive a market return through the establishment of a property trust administered by Sandhurst Trustees to fund the construction of the new head office complex and the development of the Docklands offices in Melbourne?

A: The Board is currently investigating the possibility of using the two buildings as part of a larger property trust or investment structure. We want to provide a product to people through our wealth management business which lets us achieve some of our other objectives, such as investing in regional development. There are not many opportunities for Australians to invest in regional Australia and a property trust such as this would go some way to addressing this issue. We hope to be able to develop the products and be in a position to offer them to shareholders and customers during the next 12 months.

Q: Please confirm that the Managing Director's remuneration disclosure includes the benefit of the interest free loan, measured at the cost to the Company.

A: No – the annual report disclosure did not include the benefit of the interest free loan on his staff shares. We have not been required to include this in prior years. We are reviewing this requirement in consultation with our auditor and will ensure that any required disclosure is included in future.

Q: A number of shareholders acknowledged the Bank on its (non-mandatory) disclosure in the financial statements setting out an indicative EPS impact of the employee share plan. They did however question our use of "average interest margin" instead of "average cost of funds" as the basis for measuring an indicative impact.

A: At the time the Bank was developing the disclosure, a number of alternative measurement options were considered. Due to the structure and terms of the Staff Share Plan, there is no single "best" method to apply in measuring the financial impact of the plan. After lengthy consideration, it was agreed that the average interest margin was the most appropriate in the circumstances. We will review this basis in consultation with our auditors and in light of any new accounting and reporting requirements.

Q: Please confirm that the Managing Director's (MD) share issue is subject to performance criteria established by the Board.

A: Whilst the proposed share issue is not specifically subject to Board approved performance criteria, the issue is taken into account by the Board in determining the MD's remuneration arrangements and setting of performance objectives. There is clear incentive for the MD to grow the share price beyond that at which his shares are allocated, and to grow dividends paid by the Bank which repay the interest-free loan and this is clearly in the interests of all Shareholders.

Q: There is concern in respect to the sustainability of the current residential housing market and demand for residential construction. There is also concern regarding the escalation in housing prices and the implications for the Bank in the event of rate rises or economic downturn. If this eventuates, what are the implications for the Bank and what protection do we have in the event that there is a downturn?

A: The demand for residential lending across our network has shown little sign of slowing.

We have continued to diversify our revenue streams and are also focussing on business banking and other business activities – including joint ventures and wealth management – to ensure our business is well spread across different assets. As many of our branches are relatively new, and we continue to add further branches, we expect strong lending growth to continue.

Regarding property values, we have diversified our portfolio geographically and we lend under prudent lending policies and limits. Our approvals take into account possible increases in interest rates to ensure customers have some buffer should repayments increase. The Bank is strongly provisioned and doubtful debts are at extremely low levels.

APRA recently conducted a residential loan portfolio "stress test survey" across the Australian banking and finance sector. The stress test was based on a 30 per cent reduction in housing values. The results for Bendigo Bank, relative to its peers and the industry were pleasing, with no material issues being reported. The Bank's risk unit and Board will continue to closely monitor developments in the housing sector, interest rate outlooks and the economy.

Q: Is the Bank planning another share purchase plan in the coming year?

A: The Bank monitors its capital requirements on an ongoing basis. At this time the Bank is not planning a share purchase plan. The Bank will assess the various options available, including a share purchase plan, as part of its capital management program.

Q: Is the Bank planning further strategic acquisitions for the forthcoming year?

A: We continually speak with a range of other businesses but we have no acquisition plans at this stage. Any future acquisitions would only be undertaken if they add value for our shareholders and are in the best interests of the customers and communities served by the company to be acquired.

Q: Why does it take so long for dividends to be paid after they have been declared?

A: The current timing of the dividend is a historic matter. The Board will review the current timing of dividend payments.

Q: Does Bendigo Bank have a sustainable and protective outlook towards the environment? Does Bendigo Bank have a policy regarding support for sustainable environment-safe activities or business?

A: The nature of our business – retail banking to households and small business – means our activities have a low environmental "footprint". Nevertheless, we are mindful that sustained success for our communities, and our company, depends on a sustainable environment.

Our initiatives include:

Launching Australia's first Green Home Loans.

The Bank's head office and Melbourne property developments will be planned as low energy use buildings.

Recycling arrangements for Head Office which will be extended across the Group.

A credit policy which precludes lending to borrowers who flout environmental protection laws.

BECOME AN E-SHAREHOLDER NOW

We continue to receive an encouraging response to our invitations for Shareholders to register as e-Shareholders and receive Company information and notices by e-mail.

We will gradually increase services to e-Shareholders as numbers permit economies to be achieved.

To register, simply go to the 'e-shareholders' menu item at www.bendigobank.com.au/shareholders. Enter your e-mail address as requested and click "Submit" to send to our Share Registry.

The collection of these e-mail addresses is subject to the provisions of the Privacy Act and your address will only be used for official Company communications.

We believe e-mail communication will encourage wider, and more active, shareholder participation in our Company. Moving towards e-delivery should also provide cost savings through reduced printing and mail costs as well as avoiding duplication of mailouts (eg. multiple Concise Annual Reports being mailed to shareholders with more than one holding).

Current e-services

Our Annual General Meeting and profit announcements are broadcast live and then archived. The 2003 AGM is currently available online.

Shareholders can also access our Annual Report, profit results, news releases, share price, dividend options and Shareholder Privileges details on-line at www.bendigobank.com.au

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Bendigo Bank

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