Bendigo and Adelaide Bank Limited

2017 Annual General Meeting, 31 October 2017

Managing Director's address and market update

Good Morning and thank you for spending this time to hear more about your company.

2017 has been a good year for our Bank. The profit performance was strong, being well received by the market for the growth in margin and balance sheet. The continued efficiency improvement, that has been a hallmark of the organisation for some time now, also pleased.

Our share price improved 15.4% over the year and has increased a further 10% this financial year to date. With shareholders receiving good dividends, there is much to be excited about with this past year's performance.

All of our businesses have contributed to the strong result, although hopefully there will always be more to do. That is the clearly case today and I am confident that we are investing wisely for the future of the bank and that shareholders will benefit.

Investments in technology, partnerships and our staff are at the centre of our strategy.

We are currently transforming the way our people work, moving from an historical approach of undertaking large projects to a more agile and customer responsive work environment. This change is being driven by the requirement of our customers for 24/7 always on banking, often through mobile and on-line means. New technology tools will facilitate our response as we move our workforce into smaller teams who have carriage of end to end solutions.

Partnerships have long been a part of our operating model and we continue to pursue that path. Partnerships have been at the fore in developing cutting edge customer applications in payments, cards and mobile banking; in building new digital platforms for lending and digital banks; and in expanding our reach into new communities through our different banking models such as Community Bank, Alliance Bank and our University offering.

Each and every one of those investments is aimed at future proofing the bank by helping us be relevant to our existing customers and worthy of consideration by those customers who might be looking to change banks.

Importantly we are investing in the development of our staff. An organisation wide programme for building staff resilience was initiated during the year and the feedback from staff has been fantastic. The programme is applicable to the whole of a person's life, not just their work life, and seeks to equip them with the skills necessary for a fulfilling life.

Of course we are also investing in growing work specific knowledge and have undertaken significant investment in expanding the knowledge base of our people through innovative on-line education from some of the best universities and business schools in the world. Additionally, we have been sending selected staff on overseas study tours to visit countries at the forefront of futurist thinking about banking.

So you can see that there is much work being undertaken to ensure your company has a bright future. Of course, as well as being relevant for our customers, everything we do must also be relevant to the context of the environment that we are operating in. And I am sure we all understand that is a challenging environment.

But let me split that into the current trading environment and the longer term macro view.

Trading conditions are reflecting two key themes that are related. Macroprudential actions from APRA have forced banks, including ours, to slam on the brakes in investor and interest only lending. While that reaction was necessary to ensure we hit the APRA targets in the timeframe we were given, it has meant some of the growth momentum we experienced in the year just gone has been interrupted.

As pretty much everyone has had to do the same thing, the corollary has been increased price and credit competition in those areas that aren't subject to restriction - for us, owner occupied home loans and business lending. Subsequently, we expect total balance sheet growth to be relatively flat in the first half as we maintain our long held tenet of only writing business at prices that reflect the risk being taken.

However, that approach will see us holding the strong exit margin from the last half and we expect margin for this current half year to be around 2.34%, reflecting our value proposition.

Pleasingly, the above has allowed us to deliver strong, internally generated capital growth. Although we are yet to see the new APRA risk weights, we expect to meet the new capital requirements of "unquestionably strong" by 31 December this year. This is some 2 years ahead of the timeframe APRA has announced and amounts to in excess of 50bps of capital.

Another factor challenging the industry is the area of fees and charges, with the recent example of the removal of foreign ATM fees by some of the larger players in the industry being a case in point. These changes will have a negative impact on all banks' fee income and we are not immune. It therefore continues to be important to manage our costs diligently and we expect minimal increases in costs of approximately 2% vs the same half last year.

On the macro level, I'm pretty sure that I don't need to draw you a picture on where the banking industry – and big business generally – stands in the public eye.

Executive salaries and a perception that big business doesn't pay its fair share of tax are the two major reasons big business is on the nose.

In respect of banks, the weight of regulation that is being rained down upon the industry, and the fact that a Royal Commission into banking is a central plank of the Federal Opposition's election platform, probably tells you all you need to know.

Both of those things are driven by politicians who believe they are simply acting upon what their constituents want. So you also have a clear insight into the view of the community. And it isn't pretty.

While individual bank customer satisfaction ratings are at historically high levels, there is the conundrum that the industry is perceived as being greedy and untrustworthy. This perception is fed to politicians who then play it back to the public through a supportive media, to whip up even more angst. It is almost perpetual motion personified.

So, in thinking about the current operating environment – and how relevant our strategy is in its context – where do we stand?

Well, we know we have the highest trust rating out of all the listed banks; the highest customer satisfaction and the best customer advocacy.

We have built a reputation for being the bank that does the right thing (sometimes we unintentionally stuff up, but our motivation to do the right thing is strong). Yet we are part of the banking industry, so do we suffer from the conundrum I mentioned – our customers love us, but do potential customers feel the imperative to change to us, or do they feel all the industry is the same and their bank's not that bad?

I think maybe there is some truth to that latter bit but, equally, I think we could do more to convince people of the value available to them - and their community - in moving their banking to us.

Please allow me to drift off on a tangent for a minute, but only a slight tangent. The kernel of our approach to this environment is evident in two different parts of our history.

The first of these is almost 160 years ago with the establishment of a terminating building society that became the company that is Bendigo and Adelaide Bank today. In the gold rush of Bendigo, miners came together to pool their savings and then draw lots to decide the order in which their houses were built. That initiative was true to the very first purpose of banking: the notion that everyone should benefit from a financial transaction - the investor who provides the funds, the borrower, the bank's shareholders who bear the risk of the borrower not paying, and society itself.

So that time in history provided a purpose for our organisation that still drives us today and proved a fertile ground when the second relevant point in history arrived: the recession of the 1990's.

That time was very challenging for the banking sector in Australia. The early 80's had seen a series of mergers as banks sought economies of scale, something that would prove prescient when the Hawke Government deregulated the industry in 1984. The stock market crash of '87, followed by the recession we had to have, challenged the capital soundness of the industry.

Given the astronomically high level of interest rates, the raft of corporate collapses and increased competition from international banks and securitisation enabled non-banks, there was a need to tighten belts significantly.

That manifested itself in many ways, but the pertinent one for our discussion is the closure of bank branches.

In 1991 there were almost 7,000 bank branches across Australia and by 2001 this had fallen by almost 30% to under 4,800 branches. Obviously that is a lot of closures, but it was the economically irrational way branches were selected for closure that both created community angst and sowed the seeds for the creation of our Community Bank® model.

So, here we are some twenty years down the track and community angst against the banking sector, the very thing that opened the window for our growth through the Community Bank® model, is at all time highs.

Is that window to growth open again?

I think it is easy to mount a case that it is and the questions we ponder about our relevance have answers that allow us to take advantage of that.

Our banking models and brands all clearly evidence our original purpose of feeding into community prosperity, a purpose that is still with us.

The successful stewardship of that motivation, through ensuring our culture underpins us doing the right thing, is a role I know all our organisation and stakeholders take very seriously. And that places us in a great position!

Increasingly it's also starting to be seen by those who don't yet know us well.

It's been seen by Fortune magazine when they voted us number 13 on their global Change the World list, which is a list of businesses that are doing well by doing good; it's been seen by the customers who voted us top bank in 6 of the 8 Mozo People's Choice Awards and the only business in all 8; and it's been seen by research houses such as Forresters, who awarded us for having the best customer experience across all industries in Australia two years running.

With questions of relevance to be addressed, we have all the ingredients for success: a complete product range; a strong balance sheet and an investment programme focused on meeting the changing ways that people want to do their banking.

Undoubtedly others have those elements too.

However, among our major competitors, we have the greatest trust, advocacy and customer satisfaction. A big advantage.

Pleasingly, with the mooted changes APRA is making to their capital and risk weight regime, it may be that we are even moving to a reasonably level playing field.

We have worked hard in pursuit of that with a huge amount of effort put into getting that problem recognized and lobbying to have it addressed. We have also spent a huge amount of resource on making sure we have left no stone unturned in seeking a level playing field under our own steam. It may not be coming about the way we planned, but I am confident that a level playing field is in prospect in the short term.

Uniquely, and most importantly, we have a clear understanding that banks exist to feed into prosperity, not off it; a strong sense of stewardship for our culture that is centred on the customer; and a network that is extraordinarily connected at the local level.

All of that places us in good stead, in fact in the pole position to benefit from this environment. From here it's about telling our story and asking people to join us to bring about the change they are wanting to see.

Socrates said; "The secret to change is to focus all of your energy, not on fighting the old, but on building the new."

When I look around the banking market I can't see anyone better placed to do that than us. I see many talking about the future and what the impacts might be, but most of them have an immediate focus of just trying to get to where we are.

Of course that situation doesn’t just arrive by happenstance. It is earned through the hard work of our staff and partners, through your patience and the adroit allocation of the capital you provide us.

So thank you to all: our customers, staff, partners, suppliers and you, our shareholders, for helping us do well by doing good.

Thank you.