Bendigo and Adelaide Bank Limited

2015 Annual General Meeting, 10 November 2015

Managing Director's address

Last year when I addressed the Annual General Meeting I advised that market conditions were at best mixed, with confidence at subdued levels for both business and consumers. Low interest rate settings reflected the challenge the economy was facing and our customers were taking advantage of that by repaying debt at record levels. Not much has changed in that regard.

However, there is no doubt that your Bank is in a better position today than it was this time last year. And here's a few reasons why:

Firstly, the long running Great Southern class action has been resolved. Following the case being heard in its entirety, all parties entered into a Deed of Settlement prior to judgment being handed down. This settlement did not result in the Bank paying any funds across to borrowers and all borrowers acknowledged that their loans are valid and enforceable. Court approval of the settlement was granted by Justice Croft in December 2014 and as part of that approval, His Honour provided his unpublished reasons for what his judgment would have been if settlement had not occurred.

Of note, Justice Croft found that the bank was an 'innocent third party' insofar as the conduct of Great Southern was concerned. Importantly the court found that the bank didn't engage in any wrongful conduct and labelled any claims of wrongdoing by the bank as 'fanciful', vindicating the bank's position that we have always attempted to act lawfully, respectfully and morally.

Nevertheless, it is important to acknowledge that there are many people who have been severely, even tragically, impacted by the collapse of these schemes and subsequent events.

For those who borrowed from us and ceased making payments on their loans, the impact of compounding interest has been significant with regard to the amount they now owe us. It is my view that the blame for this can rightfully be laid at the feet of the class action lawyers Macpherson + Kelley and I understand there is interest in legal action being taken against them as a result of the advice they provided.

That action may well fall on fertile ground, as Justice Croft's Reasons reveal that the lead plaintiffs representing the Great Southern borrowers would have failed completely and comprehensively in their claims against the Bank and others.

He said the plaintiffs had attempted to manufacture a claim against the Bank in an attempt to escape liability following the collapse of Great Southern.[1] He added there was no evidence to support the claims and that their case was hopeless.

In the Bank's view, the Great Southern class actions are an example of a reverse engineered proceeding, which was formulated and conducted with a view to fitting the claims within a class action mechanism and without proper regard to the merits of the claim, the underlying facts and circumstances, and the individual position of the members of the class, including the disastrous outcome some would face by taking M+K's advice to cease payments.

[1] Reasons, Paragraph 4092.

We say, M+K took advantage of the class action regime for its own benefit and we have outlined that case in more detail before the Senate inquiry into Managed Investment Schemes.

It's unfortunate that investors in Great Southern lost their money and from a human aspect one feels deep sympathy for their current position. However, they made a speculative investment, with full notice of that fact, and usually with input from their financial advisers. And, they did obtain significant tax benefits along the way.

The Bank has obligations and responsibilities to our customers and shareholders, who have elected to make more conservative investments. There is no basis on which the Great Southern investors' losses should transfer to them. To that end, I am pleased to say that the vast majority of borrowers are engaging with the Bank to normalise their accounts and arrears balances have fallen over $100m since collection activities began in February this year.

The conclusion of the Financial System Inquiry led by David Murray provides a second reason as to why your Bank's position has improved. The uneven playing field that has seen the major banks relatively advantaged through prudential regulation has been levelled to some degree.

With APRA accepting the FSI's recommendation for the major banks to have a higher risk weight applied to mortgages, and with the global push for systemically important banks to hold more capital, there has been a return to a more appropriate level of pricing for risk.

Recent capital raisings by the major banks will ensure that we are better able to compete as they have repriced to more reasonable rates relative to the amount of capital being applied. And there is an important point to note here. Even though the majors now have to hold more capital against mortgages, they still hold less than 65% of the capital required by standardised banks like us, for those same assets. This fact is borne out if one uses S&P's Risk Adjusted Capital Ratio analysis as a reference point. It clearly shows that we have a higher capital ratio than the major banks.

For us, that means a few things:

1. Given everything we know today, there is no imperative for us to raise capital in the absence of a large acquisition or new changes to regulation;
2. There remains an incentive in the system for us to improve our risk management capability through achieving advanced accreditation for credit and other risks; and
3. We must continue to provide outstanding customer experience and be highly efficient if we are to maintain our value proposition.

Which brings me to a third reason as to why our position has improved.

Today our balance sheet is in excess of $66 billion dollars and we are generally considered to be the 5th largest retail bank in Australia; we are a top 60 company on the Australian Stock Exchange; we own Rural Bank, Australia's only locally owned agribusiness bank; and, we employ in excess of 7,200 staff across our head office locations and 520 branches. We operate under a number of different brands including Adelaide Bank, Delphi Bank, Sandhurst Trustees and Leveraged – our margin lending business.

We are a substantial business by any measure.

Our style of banking is well regarded right throughout Australia, if you can trust what the independent research and awards say.

In the past 12 months we have topped the rankings in the J D Power Australia Credit Card Satisfaction study and have won awards for innovation with our Redy payments app and MiBanker app.

We continue to be ranked the number one ASX listed Bank for Retail and Business customer satisfaction and the Bank was named one of Australia's Most Trusted Brands in the annual Reader's Digest awards.

This reflected in Roy Morgan research naming us Australia's most recommended bank by its customers, with 63.2 per cent rating us 8, 9 or 10 out of 10 and Roy Morgan also awarded us Business Bank of the Year, for the fourth year in a row. To underline that, another global research house, Forresters, recently released their findings into the best customer experience in Australia. The study covered 58 brands across 8 industries and we ranked number 1.

However, the stand out result for me this year, is the fact that the Bank took seventh spot among the top 60 corporates operating in Australia as measured by revenue. The globally applied AMR Corporate Reputation index rated Toyota first with Samsung second, and we ranked ahead of Qantas, Coca Cola, Apple and IBM, with the next best financial services company being ING at 16 followed by ANZ at 31. The AMR index measures reputation across seven dimensions: products and services, innovation, leadership, performance, governance, citizenship and workplace. So we must be doing something right!

Part of that is the fourth reason I'll present today: investing in our business.

For the past few years we have been making significant inroads into setting up the business to compete vigorously in a digital world. We know that customers are seeing technology as disposable, they want to interact more than ever through mobile platforms and they want access to their financial services provider whenever they find it necessary.

So, while we have been undertaking a major investment in our risk management capability through our advanced accreditation project, there is an equally large investment being made in systems and processes to drive outstanding customer experience.

Those of you who engage with us through your mobile phones will know the success we have had in developing applications for our customers. Our banking app – Connect – is market leading in functionality and customer experience; our award winning MiBanker app supports our business banking customers across many aspects of their business with advice and information; this year we unveiled the capability for our customers to open savings and credit card accounts on-line; and we are well through the introduction of a new loans processing system that will also allow customers to apply for and monitor the progress of their loans on-line.

By April next year we will have implemented a new back-office support system that will increase our productivity greatly in finance and human resource management. Investment continues into our customer relationship management system – LINX – and we have initiated on-line forums through our MiVoice application that sees us collaborating with customers around new initiatives.

Not all of these innovations have been delivered by ourselves alone. An increasing number of them are being done by partnering with external firms, both large and small. We know that the pace of change in technology is incredibly fast these days, although not quite as fast as the change in functionality that our customers are seeking. To ensure that we are always able to deliver on what our customers want, we are working hard to move to a plug and play systems environment where we can easily source applications that will fulfil our customers' requirements. Our end goal is to have our staff and customers using exactly the same systems.

It is vital that we are able to establish such a platform as we know there are many fintech firms out there who are looking to disrupt the incumbents in financial services.

And they could well do it too. One only has to think about what realestate.com and carsales.com have done to the newspaper's classified revenue, or what airbnb and wotif are doing to hotels and travel agents, to know that this is factual.

Two years ago I was in NY with the Bank's CFO visiting our US based shareholders and we took in some additional activities to try and find out how near this threat is.

We spent a really worthwhile day with IBM understanding where they think things are headed and got a pretty good understanding of what they are doing with things like Watson and Bluemix (and I'll come back to that a bit later). That was both insightful and inspiring in terms of our business, to the point that our Chairman subsequently undertook the same experience.

We also went to the NY edition of the Finnovate conferences where 71 companies were allocated 7 minutes each to showcase their fintech innovation. And there were some fantastic things there that represented some great thinking about how customers could interact with financial services providers.

Add to all that peer to peer lending, robo advice and the fintech incubators such as Chalk and Stone and it is very obvious that there are many millions of dollars and working hours being dedicated to unseating incumbents in the financial services industry.

On that basis alone, one can see how very real a threat disruption is.

But if I look back over my 36 years in banking I can reference lots of disruption, albeit not all of that being technology based. Whilst not an exhaustive list, over the term of my career some major disruptions I have seen include:

- The deregulation of the banking industry that followed the Campbell Inquiry;
- The floating of the dollar and the granting of 40 foreign exchange licences;
- In 1985 the entry of 16 foreign banks into retail banking.
- The stock market crash of '87
- The recession we had to have in the early '90's
- The advent of securitisation and the mortgage originator businesses that spawned
- The closing of 2,275 bank branches across Australia in the five years to 2001 which was the catalyst for what I believe is one of the greatest innovations in banking in Australia in the last 50 years – the Community Bank;
- Changes to prudential regulation adopted in 2007; and, of course
- The GFC

In a nutshell, disruption occurs more often than one would think. Surprisingly though, if you examine the outcome of the above events, it's hard to see how it has done anything other than cement the place of the incumbents in the industry.

But in a world where technology is the likely driver of disruption, I doubt the advantage incumbents have had can be perpetuated without adoption of a partnering mindset. That is, how do we grow the pie vs the proprietary mindset of how can I get the biggest slice of pie?

And that brings me back to Bluemix. In my view, that platform represents a fundamental change in thinking for IBM – it is about partnership and facilitating the success of its partners – not just the success of IBM. That is a huge step for a company such as that and one we need to be cognisant of.

We believe we have that partnering mindset and that will allow us to remain at the forefront of customer considerations. It is present in our strategy, where we state our success comes from focussing on the success of all the stakeholders in our business.

And it can be seen most obviously in our Community Bank® model where we partner with almost 300 communities to provide local banking services.

In a world of disruption that mindset will stand us in good stead.

Which leads me to the most important part of my speech today.

Thank you to all our customers for the opportunity you provide us to do business with you.

Thank you to our partners and suppliers for the support you provide our business.

Thank you to all our staff who do an amazing job in ensuring our customers are experiencing the best on offer in banking services. I can assure you all that they go above and beyond what is required to achieve that goal.

Thank you to the Board for your ongoing guidance and support and finally, thanks to you our shareholders for your unwavering support of the business and the capital you entrust us with, not that we're expecting to be asking for more any time soon.