

Bendigo and Adelaide Bank Limited - 2013 Annual General Meeting, 28 October 2013

Chairman's address

It was another strong performance by Bendigo and Adelaide Bank in 2012/13. Cash earnings of \$348 million were 7.7% greater than the year before and the largest profit reported by the bank. It is nearly twice the total cash earnings we reported in 2009, the year the global financial crisis hit. Earnings per share at 85.4 cents were only slightly better than in 2012, which reflects the increased share capital that we and all deposit taking institutions are now required to hold.

On most measures the bank grew at better than system. There was little credit growth in total in the Australian system and the competition has been quite intense in these subdued conditions, so the financial performance of the bank in these circumstances was particularly good. In the growth in retail deposits we did lag the system, but that was because we had rebalanced our funding book so decisively in the years before. We will only write business in any part of our book where it is profitable to do so and we aim never to compete on price alone.

The managing director will in his comments talk more about the financial performance in 2013 and the market conditions. The result builds on the solid foundations laid down as we dealt with the implications of the crisis of 2009. And it reflects the strength of the bank's customer and community value proposition. The period of the last 5 years has been one of consolidation and we are now looking to take greater advantage of opportunities in the market place.

The banking market has changed considerably in the years since the crisis broke.

Regulators and governments around the world have required more capital and imposed

more stringent controls on the activities of deposit takers to try to avoid another crisis where the ultimate cost is thrown back on taxpayers. As the Governor of the Reserve Bank has commented, good progress has been made but there is a lot more that needs to be done around the world. In Australia, we are probably at the forefront of the adoption of the new rules and standards, in substantial part because the financial system here went into the crisis in much better shape than in other jurisdictions. The costs of compliance have been very significant.

This has been part of the reason we have seen such concentration in the banking market in Australia. The position of the major banks is now quite dominant even as they compete vigorously between themselves. They enjoy some very significant competitive advantages. This no doubt enhances the stability of the system but it is at the expense of an open market where new entrants are possible.

At the same time, we have seen a huge change in the way technology is used in the banking system. The new technologies themselves have and will continue to require very large investments. The biggest competitive threats to banks now come from non banks in areas like the payments system where companies like Google and Amazon, unrestrained by the regulatory burdens of Basel II and III compliance, can pick lucrative niches to exploit.

To retain our unique position in the marketplace, we must continually adapt, grow and improve. The requirements and expectations of our customers continue to change and change very quickly. For example in May the mobile phone became the most popular way of conducting transactions with us, which I think even a few years ago would have been inconceivable.

So we must continue to invest in systems and our people. The rate of change in our industry is not going to slow. Our investments in the Basel II Advanced Accreditation Project and new digital and online technologies are part of this. So is our new building in Adelaide which we expect to start moving into in November. We are also investing in new partnerships, new

alliances as ways of reaching new customers and new communities of interest. In July we announced our partnership with the Royal Children's Hospital which we hope will generate new business for us the value of which will be shared with the hospital. On Friday it was announced that we have signed a letter of intent with the Government of Nauru to work together to see if a community bank in Nauru is feasible.

We were very pleased to announce in April that we had agreed with Mike Hirst to extend his contract to be managing director for another 2 years until 2016. He has been an outstanding leader for the organisation over the past 4 years and we are delighted that he will continue to press forward with the development of the Bank.

There has been a significant reorganisation of the senior management roles in the Bank over the past few months. The executive group has been expanded to allow a number of new faces to get senior executive experience and more visibility to the board. This is crucial to ensure proper succession planning in the company. As well many functions were reorganised to ensure the management structure of the bank addresses the major strategic issues confronting us.

The board too has continued to change. Following Terry O'Dwyer's retirement last year, we welcomed Rob Hubbard to the board. Five members of the board (including the managing director) have been on the board for less than 5 years so there has been quite a lot of change in that time. As a group it has a wider range of skills and experience than ever before I think and is well equipped to deal with all the issues we will confront.

Thank you to all of our staff who have worked so hard to bring us to this point. And thank you to all our other stakeholders – our partners, our suppliers and our customers and especially to you our shareholders. Thank you for your great support and we look forward to next year.