

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

**Managing Director's address**

Those of you who attended last year's AGM may recall I spoke of the likely trading conditions we would face in 2013. In particular, I noted that low demand for credit would make it difficult to grow profitability and that the new regulatory changes arising from Basel III would require higher capital to be held by banks and drive increased costs of deposits. That is pretty much how things played out and there are only marginal changes to those conditions in prospect.

Given those difficult trading conditions, I'm pleased to say that your business has performed extremely well. We have been able to produce a result that shows improvement in a range of profitability and efficiency measures – including market leading lending growth and interest margin improvement. Our cash earnings increased 7.7% and we also grew net profit, dividend and earnings per share. The efficiency of the business improved as measured by cost to income and cost to assets ratios. This is a great credit to our staff who are embracing a continuous improvement culture that will drive a better banking experience for our customers – something independent metrics would suggest we are doing successfully. We have the highest customer satisfaction, brand advocacy, brand trust and loan growth among all the nationally operating banks. On any assessment, that is a fantastic result and one that we can all be very proud of.

Our customer-centric values, ability to innovate and a culture of doing things differently have carved out a position for our Bank that continues to be unique. From the many milestones and achievements of the past year, there are some key highlights I would like to share with you.

In just 15 short years, our **Community Bank®** model has returned more than \$100 million to communities across Australia; our Retail Bank leveraged our new customer relationship management system LINX to great effect in improving customer engagement; Sandhurst Trustees celebrated 125 years of helping customers manage and grow their wealth; Community Sector Banking celebrated its first 10 years of operation and serves more than 7,000 customers across a \$650 million balance sheet. In November, we relaunched the Bank of Cyprus as Delphi Bank and that business is growing strongly now that it has been freed of capital and funding constraints.

Importantly, we successfully completed the transition of more than 110,000 Adelaide Bank retail customers onto the core Bendigo Bank retail platform and we continue to invest in our systems capability, particularly in the digital space.

It should not pass unremarked that the strong results we have achieved over the last four years occurred despite us having to expend much of our effort internally. We've dealt with everything the merger required of us; restructured our funding and capital base so our balance sheet is now very robust; achieved credit ratings upgrades; worked through Restoring the Balance with our community partners to ensure equity in the model for both of us; embarked upon a new path in Wealth; and, aligned our investment to our strategy. Each of these issues would have been a significant challenge on its own, let alone having to deal with them concurrently through the GFC.

So we are in a really strong position as a business but currently operating in a weak economic environment. As we all know economies operate in cycles, it is only a matter of time before we enter in to an economic upswing. To make sure we are well prepared for that eventuality we are continually adjusting the business as the circumstances demand.

As part of that process we recently examined the challenges and opportunities that we foresee over the next few years, talked about what we need to be doing to address those and looked at how we can put our best foot forward.

There are some things that we are certain about – e.g. more regulation, greater competition and the use of technology to disrupt the existing structure of many industries, including banking.

Equally, there are things we will have to make educated guesses about. What will the economy be like; what will funding markets do; who will our competitors be and what the basis of competition will be in banking are all examples of that.

Of course identifying those things is only one part of the equation. Being well positioned to deal with them is the key. We need to make sure our customer is the centre of our focus; that we continue to challenge the organisation to be better every day; that we are nimble in the way we respond to market changes; and that we develop and empower our people to enable us to deliver on our promise of being Australia's leading customer connected bank.

Our strategy over the next three years will see us build on the strong foundations established for the business since the onset of the Global Financial Crisis and capitalise on the many opportunities available to us. Our family of brands ensures we will continue to attract, serve and satisfy the varied needs of our customers. Significant investments in Basel II Advanced Accreditation and our new Adelaide premises will deliver enormous benefits to our customers through increases in productivity, efficiency and collaboration.

Technology adds a layer of uncertainty to the banking environment by enabling the rapid introduction of new ways and models of doing business that will be advanced by aggressive new entrants. But we are also a part of that progression and are increasingly engaging with our customers through social media and digital channels. We are currently developing a new mobile banking system, continuing to invest in our customer relationship system, LINX, and have recently relaunched [www.bendigobank.com.au](http://www.bendigobank.com.au). There is more to come in this space.

We are reinvigorating our margin lending business in anticipation of investors switching away from subdued returns in defensive asset classes and risk appetite increasing in response to that. Rural Bank is expanding its distribution footprint through our Bendigo

branch network and the early signs are encouraging. Our third party mortgage team is repositioning and relaunching that business to capture a larger market share among those four-in-ten Australians who source their loan through a broker. In our Wealth business, our customers have welcomed the introduction of our Wealth Advisers to assist them with their financial needs and our Smartstart Super product, which was recently granted a MySuper licence by APRA, is finding strong support with Bendigo customers and acclaim with research houses, as are many of our products and services.

We are a relatively small organisation in the Australian financial services industry but I think we punch well above our weight. In the past few years that has included having to fight with one hand tied behind our back as regulatory intervention often favoured the largest industry participants. It should be obvious that the impost of regulation is more acute the smaller an institutions is, simply because there is a certain fixed cost of regulation that is diluted depending on how many transactions it is spread across – it's just unit costing after all. Compounding the size issue, where intervention is rushed it can often cause unintended consequences as it is sometimes difficult to give full consideration to the broadest impact decisions have. Whilst urgency may be required in these decisions, a widely cast net is still required to capture broader views. This lesson stands stark in the example of the pricing regime for the Government guarantee for wholesale funding, which erred in prioritising credit rating over prevailing market structure. That decision had a major impact on customer choice which is a point I want to emphasise. I think people often misconstrue the impact of the concentrated nature of Australia's financial sector as being anti competitive. I can assure you that the market is very competitive. What we don't have, however, is an even playing field that promotes customer choice. Size is a powerful ally in any endeavour. In banking in Australia it provides larger players with funding and regulatory advantages that ultimately restrict consumer choice. That needs to be put under a microscope. For that reason alone I welcome the Abbott Government's financial services inquiry and its promise of a moratorium on further reform until the inquiry has reported. It is vital that the inquiry turns its collective

mind to the sheer weight of regulation that is being driven through the industry and the cost of that to business and consumers. Yes, much of it is warranted and even belated. But some of it is simply a solution looking for a problem. I know I am not alone in this view and even our own Reserve Bank Governor has recently expressed some concern on this. Governor Stevens believes the current level of regulatory change facing the industry is daunting and that we need to contain the growth in the regulatory agenda. He is very clear in saying "...this is NOT a call for current reform efforts to stop, or to be watered down" but "It is about ensuring we focus our finite energies and resources on the most important problems, and get industry to do the same."

I think the Governor's call to focus on the most important problems has great merit and should be applied to the queue of mandated industry wide change. Perhaps that could be one output from the government's review. It could well provide a hierarchy of priorities for all stakeholders to work by. I guess such a hierarchy would have financial stability at the top, then maybe securing funding for the economy, followed by data security, consumer protection (including fairness, choice and inclusion) and then perhaps payments innovation. With that list of agreed priorities, government, regulators, industry and the community could align their efforts to the greatest need, just as a company has to reallocate resources to the opportunities that best deliver on its strategy. It would be interesting to line up such a hierarchy against the current change agenda.

Before I finish I would like to thank all stakeholders who contribute to our business. Our customers, staff, community and other partners, suppliers and of course you, our shareholders all play a vital role in this organisation's success. We know that unless we ensure every stakeholder feels they are being fairly rewarded for their effort it is only a matter of time before they withdraw their support, leaving our own sustainability exposed. I can assure you that the Board and Executive are very focussed on working towards that right balance whilst recognising equilibrium is a very hard place to stay.

I am very excited about our future and very confident in our ability to deliver on our vision to be Australia's leading customer connected bank.