

Q&A – 2013 Annual General Meeting

1. Could you outline the plan for board renewal?

The board is committed to a process of orderly renewal. This commitment is evidenced by the recent changes in the board's composition. There are now 5 directors who have served on the board for less than 5 years (including the managing director), 2 directors who have served 7 years and 2 who have served more than 10 years.

The board aims for a broad mix of skills and experience and a blend of tenure and experience. It considers that there are significant benefits in retaining non-executive directors who have served on the board through economic cycles. Such experience brings a depth of perspective and a corporate memory that is of particular value to the organisation.

The board considers gender, geographic and other diversity to be important. It aims to maintain female representation of at least one-third of non-executive directors on the board, and also aims to have a diversity of geographic representation in its composition.

The board discusses succession planning for its members and the chair regularly and robustly. Succession planning is an ongoing process and there are a number of well qualified internal candidates for the role of chair.

2. How does the board assess a director's independence?

A director's independence is assessed before appointment, then annually, and whenever an independent director's circumstances change in a manner that may affect their status as an independent director.

The test for the purpose of assessing the independence of non-executive directors is as follows: *"An independent director is a director who is free from any material business or other association – including those arising out of a substantial shareholding, involvement in past management or as a supplier, customer or advisor - that could interfere with the exercise of their independent judgment"*.

The board has assessed each non-executive director as independent on the basis that each of them continues to test and challenge the Company's management team constructively and provide independent judgment on matters presented for board decision.

3. What steps is the Bank taking to recruit females into senior roles within the Bank?

The Bank has formalised a diversity and inclusiveness strategy, and has set itself a number of diversity targets as part of the implementation of that strategy. One of those targets is to increase the number of females in senior management to at least one third by 30 June 2015 (currently 26%).

The Executive Committee has established a Diversity Council to assist the Bank in meeting its diversity targets, and the target to increase the number of females in senior management will be a key focus for the Council in the coming 12 months.

As mentioned above, the board aims to maintain female representation of at least one-third of non-executive directors.

4. With net profit up 80.7% on the previous year, why was the final dividend increased by only 3.3% on the first half dividend?

The Bank's statutory net profit after tax for the 2013 financial year was significantly higher than the statutory result for the prior year. By comparison, the Bank's "cash earnings" - which adjusts the after tax profit for significant and non-recurring items - over the same period increased by 7.7%.

Cash earnings per share increased by 1.4% on the prior year. Growth in cash earnings per share was less than the growth in cash earnings because the Bank bolstered its capital position during the year by increasing the number of ordinary shares on issue.

The board will look at cash earnings and cash earnings per share performance when it considers the amount of dividend to pay to shareholders because these measures reflect the sustainable returns for shareholders.

When considering what level of dividend to pay, the board will also look at the amount of capital and investment necessary to effectively grow the business. The Bank has commenced a major project to become accredited under APRA's advanced capital measurement model (Basel II) which will require a significant investment by the Bank over a number of years. In addition, the Bank has also committed to the construction of the new five-star green-star building in the heart of Adelaide. The board believes that both of these investments will generate significant long-term benefits for all of the Bank's stakeholders, especially shareholders.

After weighing up the various considerations, the board increased the final dividend to 31 cents per share - an increase of 3.3% on the prior half - taking the full-year dividend to 61 cents per share.

5. *Now that Bendigo and Adelaide Bank has complete ownership of Community Telco Australia, what advantages or future advantages are likely to improve banking activities?*

Technology is now playing a significant and growing role in how customers interact with the Bank. More than half of our online banking logons now originate from mobile devices.

We are the only Australian bank that owns a full service telco. The investment in Community Telco Australia is therefore a unique opportunity for the Bank to create a deeper relationship with its customers by developing new technologies designed to meet customers' changing expectations of their financial services providers.

6. *The transfer of Adelaide Bank customers to the Bendigo Bank banking system was completed in April 2013. What are the advantages to the organisation from this project?*

Retail customers in South Australia will find it easier to do business with the Bank. Throughout South Australia the Bank will offering a service that is consistent with the rest of the national network including:

- access to additional products and services; and
- superior customer service in branches, online and through phone banking.

The removal of the old Adelaide banking system has removed duplication and delivered efficiencies for branch staff, allowing us to spend more time with customers.

7. *Why has the Bank's share price not returned to the pre-2008 level?*

Before the GFC, particularly in 2006 and 2007, the Bank's share price included a takeover premium, reflecting the amount of M&A speculation at that time. This premium has since disappeared and the Bank's share price has been re-rated at a lower price-earnings multiple. Part of the decline can be attributable to this.

It would be fair to surmise, however, that the decline in the Bank's share price since 2007 relates less to issues specific to the Bank than issues affecting the market more broadly. The total value of the top 200 companies listed on the ASX has recovered since the market lows in 2009, but still remain well below the market highs in 2007.