

**Bendigo and Adelaide Bank Limited**

**2015 Annual General Meeting, 10 November 2015**

**Chairman's address**

The 2015 financial year was a good year for our Bank, growing cash earnings by 13.1 percent to \$423.9 million. This was a solid profit result in this challenging economic environment.

We continued to grow, albeit slowly, in a highly competitive market, introducing systems and new technologies that make it easier for our customers to do business with us.

Growth has been our biggest challenge. Credit growth across the whole economy has been limited and much less than the unsustainable levels that the industry became accustomed to in the days before and during the Global Financial Crisis.

While we have continued to write good levels of new business, our customers are repaying their borrowings at high levels while interest rates are at these historically low levels. This is good for them, reducing their indebtedness and reducing their vulnerability to an increase in interest rates.

Returns to shareholders also grew in 2014/15. The full year dividend was increased to 66 cents per share, up 2 cents on the previous financial year.

We continue to invest in expanding our capacity, developing and investing to improve the customer experience.

One of our most significant investments continues to be in new risk management systems. Our old systems and procedures served us well and kept bad debts and write offs at industry wide low levels. But as we look forward and begin to plan for a business with over \$100 billion of assets, and as we organise to be able to take advantage of the new digital economy, we need more rigorous and comprehensive risk management systems.

This project has implications for every part of the business and everyone has been involved in developing these new systems and procedures and in training. From an accreditation perspective, since the commencement of our program we have kept APRA informed of our progress. We are now in a more formal stage of engagement and it is not appropriate to provide commentary on these discussions.

Operating a more capital efficient business by improving systems, processes and risk management practices will benefit customers, communities and shareholders for the long term.

We are continuously building our capability to serve our 1.6 million customers, striving to achieve our vision of being Australia's most customer connected bank.

This continual effort and dedication by our people has seen us maintain our market position as Australia's fifth largest retail bank, operating a business with a unique value proposition; a commitment to building communities that thrive, not just for today but for the long term. This reflects the way we operate and the partnerships we create.

Our **Community Bank**® partners continue to work hard to build their own businesses. From surpluses distributed from **Community Bank**® branches, about 600 projects were completed through the Community Enterprise Foundation™ and hundreds more supported by local sponsorships and donations. More than 1,900 dedicated volunteer **Community Bank**® directors and approximately 1,500 **Community Bank**® staff also play an important role in their communities, providing information and advice, not just financial backing. I thank all of our **Community Bank**® partners and staff for their work.

This year saw another important relationship formed. Four ex credit unions have joined together to form Alliance Bank. In this structure, Bendigo and Adelaide Bank manages licencing and regulatory requirements, while our Alliance Bank partners service their customers while remaining independent.

We are also committed to expanding the capacity of our business by partnering with a range of technology and service providers. There is a huge amount of technical innovation occurring in financial services. Existing entrenched providers are finding their business models made redundant as customers embrace the new digital economy and choose to use mobile technologies. Our relationships with TCS and other companies such as Ferocia are giving us capacity and insight to compete effectively and ensure that we can connect with customers in the way they wish.

In this financial year, we have made a substantial investment in developing our future women leaders. We have set targets to ensure that all parts of the company deliver on these objectives.

Our culture and values are a highly important attribute of our organisation. The Bank encourages a work environment where we constantly seek new and better ways to do business. We are committed to developing a diverse flexible work place where everyone is welcome and can contribute.

We are very confident about the future. We've already started to see positive impacts following the final report of the Federal Government's Financial System Inquiry and the responses to it from APRA and from the Federal Government. Recent APRA changes to risk weights on mortgages is a positive step toward addressing the issues we raised as part of this inquiry. We welcome further changes to even the playing field between larger banks and regional banks.

The additional capital that the major banks have been raising lately has been to increase the level of capital they hold for their existing business. Unless we see substantial levels of new business, Bendigo and Adelaide Bank does not need to raise additional tier 1 capital. Indeed, if we achieve advanced accreditation as a result of the investment in new systems of risk management I discussed earlier, we should have sufficient flexibility to ensure that our current levels of capital are sufficient for some time.

You will have seen that last week we moved to adjust the rates that our borrowers pay on a number of our products. These increases followed the increases announced by the major banks which were justified as being necessary to support the increased levels of capital they are now required to hold. Our interest margin has been under considerable pressure for a long time as a result of the additional capital we were required to hold and these increases will assist in addressing this pressure.

Banking in Australia has enjoyed a long period of high returns on capital being generated for shareholders. We expect that over time these rates of return will reduce. This seems inevitable in an economy where the risk free rate is at all-time low levels, and where around the world returns on capital employed in banks are much lower than in Australia. We do need Australian banks to be, as the Murray report found, unquestionably strong to ensure ready access to international capital markets

Bendigo and Adelaide Bank is a price taker in most parts of its business. We do not seek to get business by offering the cheapest borrowing rate or the highest deposit rate. We do offer competitive rates and our ability to do that is strengthened by the reduction in the competitive disadvantages that non major banks have suffered. We know that all our stakeholders – depositors, borrowers, employees and capital providers – need to earn fair and competitive returns.

Our Bank is committed to achieving positive outcomes for all of our stakeholders, while helping communities to shape a more prosperous Australia.

Thank you everyone who has contributed to the Bank's performance in 2014/5. In particular we thank the staff, all 7000 of you around Australia. Thank you especially to the executive and to the managing director, Mike Hirst, who has so capably led the organisation since 2009, a period that has spanned the GFC and significant technological and regulatory change. We are delighted to announce today he has agreed to continue his employment contract beyond the current term which ends in July next year.

On behalf of the Board, I thank you for your continued support of our Bank and we look forward to a successful 2016.