Media Release

Bendigo and Adelaide Bank

Industry response to bank conduct effective, shareholders hear

Tuesday 25 October 2016: Shareholders of Australia's fifth largest retail bank, Bendigo and Adelaide Bank, today heard that well implemented business strategies and diligent cost management resulted in the Bank's solid financial result.

Managing Director Mike Hirst said fierce competition continues to be driven by low interest rates, slowing credit growth and new prudential regulation, compounded by a political campaign to pursue a Royal Commission.

"We realise there is some community angst with regard to banks. There can be no hiding the fact that there have been some examples of poor behaviour in the industry," Mr Hirst said.

"These examples have been acknowledged by those organisations who have undertaken them. But, it is apparent from the recent parliamentary hearings that there is no systemic issue across the industry. That is an important point to note.

"We agree that there are some issues within the industry that should be addressed, but the most effective solution is the one in place; that banks and regulators will work even more closely to deal with the concerns that have been raised, while independently appointed parties will make sure banks are delivering.

"It's this action that will provide the best outcome for all Australians.

"As a bank, we have a privileged status in the community. We believe that it's important for the community to trust banks and feel confident that they will act fairly and transparently.

"Our Bank believes that our actions define who we are. It's in how we practice banking, in the culture we encourage for our people, and in our conduct with customers, that we are put to the test."

Mr Hirst said new regulation would further ensure banks operate in the best interests of consumers.

"It's is very hard to see what substantive, tangible matters a Royal Commission would actually investigate. In my view, it would be a significant waste of taxpayer and shareholder money."

Mr Hirst welcomed the opportunity today to address public discussion regarding interest rates banks set relative to the Reserve Bank of Australia's official cash rate.

"There is an expectation in the community that banks should pass on, in full, any rate cut that the Reserve Bank of Australia makes to the official cash rate. As interest rates move lower this is not a realistic expectation for a number of reasons.

"It is a complex issue but even a simplistic understanding of why banks price as they do will go some way to easing the angst.

"The rate the bank sets must be attractive enough for depositors to provide the funds that are then lent to borrowers. Without those funds there can be no borrowing, so when setting rates banks have to consider lots of stakeholders. We try to do this as equitably as we can."

"Hopefully, Australians understand there is no direct link between changes in the cash rate and what happens to rates on loans and deposits despite some recent, opportunistic commentary to the contrary.

"It is simply an indication of where rates should head."

Mr Hirst said the Bank's capital, funding and credit positions continued to be particular strengths.

"We are managing our business today as an advanced bank from a Basel II perspective. The investment of more than $80 million we've made to move to advanced accreditation has increased our risk management capability, and this has become an important strategic asset for our Bank," he said.

"Additionally, we are pleased to see the positive outcomes of APRA initiatives that address the industry's uneven playing field; changes to risk weights on mortgages and a reduction in the capital advantage major banks have enjoyed.

"These outcomes will all serve to highlight the value proposition we offer customers and emphasise the benefit of choice in banking service providers."

Chairman Robert Johanson told shareholders today the significant investment made in the Advanced Accreditation program had already improved how the Bank conducts business.

"The biggest project over the past three years has been the investment in reengineering the way we manage risk in the bank in the advanced accreditation project. This has included new IT systems and models, and a lot of training," Mr Johanson said.

"We have always been a conservative organisation which has resulted in, by industry standards, low bad debts and provisions. But this new approach has altered the way risk is discussed in the Bank and we are a stronger business for it."

"We expect that in due course the competitive disadvantage we suffer as a result of having to apply more capital than our major bank competitors to similar loans will be removed."

Mr Johanson addressed recent discussion relating to sustainability of the level of dividends paid by the Bank.

"Given the level of participation we have in the dividend reinvestment plan and our ability to raise capital for particular opportunities to support the purchase of the Keystart portfolio for instance, we think these levels are sustainable and allow us to continue to grow the Bank organically."

"Many of our shareholders do rely for income on the dividends that we pay so we think it is important to allow them the choice as to the extent they continue to reinvest in the growth of the Bank. This is especially so because of the different tax positions of shareholders."

The meeting elected Jan Harris and re-elected Rob Hubbard, Jim Hazel, David Matthews and Robert Johanson, who retired by rotation.

The meeting passed all resolutions and the Remuneration Report.

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