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BEN, struggling to play in the big league.

Company/ASX Code	Bendigo & Adelaide Bank Ltd (BEN)
AGM date	Tuesday 8 November 2022
Time and location	11am The Capital, 50 View St. Bendigo Vic 3550
Registry	Boardroom Ltd
Type of meeting	Hybrid (on-line at https://web.lumiagm.com/309859902)
Poll or show of hands	Poll
Monitor	Eric Pascoe and Norm West
Pre AGM-Meeting?	Yes, with Jacqueline Hey Chair, Marnie Baker CEO, Vicki Carter Director

Monitor Shareholding: The individuals involved in the preparation of this voting intention have a shareholding in this company.

Summary of issues for meeting

Over the last 4 years, under this current management, BEN has not performed well for investors. This is less than ideal for investors who rely on the returns from their shares for their livelihood. The question is, are small banks a broken model because they cannot operate efficiently enough or is management/leadership to blame?

In the past your monitor felt BEN's leadership has lacked a focus on disciplined financial performance, cost control and shareholder returns. Unusually for an ASX listed top 100 company, BEN has concentrated more on their reputation and being a good corporate citizen than providing an adequate return to shareholders. This year at their annual review presentation, in what is somewhat an admission of guilt, they are claiming they will have "a renewed focus on shareholder returns" in FY23.

It is possibly more concerning for investors if the small bank model just cannot compete effectively with the big banks. BEN's Cost to Income ratio is 59.4% whilst the CBA's is just 46.7%, a solid disadvantage. BEN's Net Interest Margin was 1.74% last year whilst the CBA's was 1.9%.

When queried on her high cost to income ratio, CEO Marnie Baker highlighted the cost of compliance which is proportionally greater for smaller banks. She also claimed BEN has 80% completed a 5-year restructure plan which has cost money through redundancies and digital modernisation.

On the day the ASA met with Bendigo & Adelaide Bank, Bank of Queensland (BOQ) announced their results and they were received favourably by the market. Today it seems the two banks match each other in size and performance but face the same problems due to lack of scale.

The logic of a merger between BEN and BOQ appears compelling but the prospect of either paying a takeover premium would appear impossible. The concessions each would have to make in a merger of equals however, is also fraught with difficulty. How to best gain size and efficiency going forward whilst retaining its unique identity is BEN's biggest issue.

Proposed Voting Summary

No.	Resolution description	
2	Re-election of David Matthews as a Director	For
3	Re-election of David Foster as a Director	For
4	Election of Ms Victoria Weekes as a Director	For
5	Election of Mr Alistair Muir as a Director	For
6	Adoption of Remuneration Report	For
7	Approval of the Managing Director's FY 2023 Long-term Incentive	For

Summary of ASA Position

Consideration of accounts and reports - No vote required

BEN made much of their record Cash Earnings of $500.4m Vs last year's $457.2m. However, in FY21 BEN's cash profit was reduced by an $18m allowance for bad and doubtful debts whilst in FY22 the Cash Earnings have been boosted by the release of $27.2 m in provision for Bad & Doubtful Debts (B&DD). Without these adjustments the Cash figure would have been similar. The release from provision also comes ahead of an anticipated spike in B&DD in FY23 which makes one wonder at the boards logic for doing so. The CEO's answer to our query was "it was approved by the auditors" which is fine, but it is not a reason why you would release the provision.

Statutory Net Profit was down this year ($488m) after being up last year ($524m). This was mainly due to an adjustment to market for the Homesafe portfolio. Last year BEN's Net Profit was adjusted upward by $77.7m for Homesafe but in FY22 the Homesafe net adjustment was down $3.4m.

Governance and culture

The culture at Bendigo & Adelaide Bank Ltd (BEN), epitomised by the CEO Marnie Baker and Chair Jacqueline Hey, is very earnest and correct. The ASA has no issue with BEN's fulfilment of its ESG and community obligations. The company is exemplary.

Financial performance

The company crowed about its record cash earnings of $500.4 million but the dividends are still 24% below 4 years ago at 53 cents and the Total Shareholder Return was down 6.8% on last year.

Key events

In FY22 BEN completed the acquisition of the technology company Ferocia in order to fully consolidate the bank's ownership of UP – Australia's highest rating banking app. It also helps BEN with its digital modernisation program.

There was no disposals or Capital Management initiatives during the year.

Key Board or senior management changes

Two directors Ms Victoria Weeks and Mr Alistair Muir are up for their first election at this year's AGM. Neither appears to be controversial in any way.

Perhaps the biggest change at BEN during the year was the replacement of the CFO. Travis Crouch, the home grown local stepped aside into the Deputy CFO's role in favour of Andrew Morgan taking up the CFO's position.

Adam Rouse was also added to the executive team as Chief Customer Officer, Business and Agribusiness. Alexandra Gartmann former Executive Rural Bank left the company in February.

<u>ASA focus issues (not discussed under remuneration report or re-election of directors)</u>

ESG is a major focus for BEN. The company has established a dedicated ESG and Sustainability function. They are in the second year of their Climate Change Action Plan which, among other things, has overseen the installation of 51 rooftop solar systems on branches and they continue to support their leaders scholarship program for the 16th year.

<u>Summary</u>

(As at FYE)	2022	2021	2020	2019	2018
NPAT ($m)	$488.1	$524	$192.8	$376.8	$434.5
UPAT ($m)	$500.4	$457.2	$301.7	$415.7	$445.1
Share price ($)	$9.07	$10.49	$7.01	$11.58	$10.84
Dividend (cents)	53c	50c	35.5c	70c	70c
Simple TSR (%)	-6.8%	55.5%	-36.4%	14.2%	4.3%
EPS (cents)	87.5c	98.1c	38.1c	77.1c	89.9c
CEO total remuneration, actual ($m)	$1.829	$1.77m	$1.68m	$1.86m	$2.5m

For FY22, the CEO's total remuneration was **19 times** the Australian Full Time Adult Average Weekly Total Earnings (Based on May 2022 data from the Australian Bureau of Statistics).

Election or re-election of directors

BEN's ten-person board has 5 women including the Chair and MD. Gender balance is not an issue. Equally all those standing for directorships have had appropriate other board experience but do not appear to be over loaded.

BEN claims that all of their non-executive directors are independent although there is good reason not to consider David Matthews 'independent'. He came to the notice of Bendigo Bank by Chairing the first of BEN's Community Banks and has now completed 12 years as a director. He is an important representative of rural and agricultural communities however.

David Foster is an experienced banking executive and is up for re-election. He has had hands on experience running a major regional bank. ASA has previously voted for Mr Foster.

Victoria Weeks and Alistair Muir are up for election to the board for the first time. Both appear to be very experienced in their respective fields. Ms Weeks has been involved in financial services for over 35 years at a high level. She commenced on the board in February 22 and holds a suitable number of BEN shares. Mr Muir is highly educated in computer science and has had extensive experience in finance and technology. He was appointed to the board in September and also has a modest shareholding in BEN. ASA has no reason to oppose the election of either director.

Adoption of Remuneration Report and approval of equity grants to Managing Director/CEO

BEN conducted a review of the CEO's salary structure during the past year and the board is cognisant of the new APRA Remuneration standards (Prudential Standard CPS 511) coming into effect on 1 January 2023. Consequently, the CEO has a new remuneration structure for this financial year (FY23).

The new framework will consist of fixed remuneration, a short-term incentive and a long-term incentive plan. The fixed remuneration is $1.6 million cash.

The short-term incentive has a target opportunity of $720K and a maximum opportunity of $960K. There are 6 different factors affecting the quantum of the opportunity (see Appendix 1 below). Fifty percent of the STI will be paid as cash at the end of the year and 50% will be issued as Equity Rights and held until the end of year two.

The LTI is awarded as Performance Rights with a value of $640K. The performance measures are rTSR (40%), ROE (25%), rNPS (20%) and Reputational Index (15%). Performance will be measured over 4-years at the end of the period. There will be disposal restrictions for portions of the rights for a further two years.

The equity components have numerous tests affecting varying amounts of rights. The pay structure is not excessive but it is complex. Because of its complexity the pay structures efficacy as an 'incentive payment' is questionable.

We are supporting the remuneration report and the issuance of the CEO's LTI because they are not excessive, not because we think they are well designed.

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Appendix 1

Remuneration framework detail

CEO rem. Framework for FY23	Target* $m	% Of Total	Max. Opportunity $m	% Of Total
Fixed Remuneration	1.6	54%	1.6	50%
STI - Cash	0.36	12.0%	0.48	15%
STI - Equity	0.36	12.0%	0.48	15%
LTI	0.64	22.0%	0.64	20%
Total	2.96	100.0%	3.2	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year.

Short Term Incentive scorecard factors are; Weighting

- Cost to Income ratio 20%
- Cash Earnings 20%
- Profit after capital charge 10%
- Customer experience and satisfaction combined with social impact through the Community Bank network 20%
- Employee experience and diversity combined with implementation of the climate change action plan 10%
- Risk and governance uplift 20%

There is an 'Individual Modifier' which can reduce STI outcomes to zero or increase them to 120% of the scorecard outcome.

Fifty percent of the STI is paid in cash and 50% is deferred rights.

Long Term Incentive Hurdles; Weighting

- Relative TSR (against ASX S&P 100 Financials) 40%
- ROE over 4 years 25%
- Relative customer NPS 20%
- Reputation Index 15%