Australian Shareholders' Association

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BEN – Does the Company Have the Right Focus?

Company/ASX Code	Bendigo & Adelaide Bank Ltd / BEN
AGM date	Tuesday 9 November 2021
Time and location	Virtual only at 11am
Registry	Boardroom Ltd
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Eric Pascoe assisted by Norm West
Pre AGM-Meeting?	Yes, with Jaqueline Hey Chair, Marnie Baker CEO, Vicki Carter Director & Travis Crouch CFO

The individuals or their associates involved in the preparation of this voting intention have a shareholding in this company.

Summary of issues for the meeting

Bendigo and Adelaide Bank's AGM will be a tame affair. There is nothing controversial to be considered; the presentation of results, the re-election of a couple of directors, a remuneration report that the ASA supports and some non-controversial adjustments to the constitution. But does this disguise an underlying problem?

Item 1	**Consideration of accounts and reports**
ASA Vote	No vote required

Summary of ASA Position

Financial performance

On the surface BEN's financial report looks acceptable. The company highlights that aggregate cash earnings are up 51.5% (although from a very low base in Covid affected 2020 financial year [FY20]) and that total income was up 4.5% to a record $1,702.5 million.

However, in 3 years under the current management the company has changed the narrative from focussing on financial analysis of their performance to lengthy commentary around the company's relationship with community, customers, their staff, the environment and governance.

The CEO Marnie Baker has just completed 3 years in the role and Chair Jacqueline Hey has been in her role for 2 years. Despite record revenue in FY21 (as one would expect on the back of a booming property market) compared to 3 years ago when Ms Baker took over, cash earnings per share has fallen 7%, the cost to income ratio has risen 8.5%, dividend per share has fallen a massive 28.5% and return on equity (ROE) is down 11.7%. The company's corporate strength has been weakened in that time and their share price is under pressure.

Meanwhile the executive say “trust us, we are in a transition phase and we are on the right track”. This is the third year in a row that they have told us the same thing.

Key events

With the announcement of the company’s results on 16th August BEN also announced the purchase of fintech company Ferocia P/L for up to $116m to be paid in cash and equity. Shareholders are querying can a bank internally manage a fintech start-up company? BEN also failed to provide any financial justification for the purchase of Ferocia but have now undertaken to do this in their November economic update.

BEN’s share price immediately plummeted over 11% after the results/purchase announcement and has not recovered. Shareholders perceive the transaction will further increase costs and undermine both ROE and total shareholder return (TSR) whilst the benefits to a bank of owning and operating a fintech company are not readily apparent.

Governance and culture

BEN has come to adopt a culture with a strong social conscience that they say is considerate and supportive of ‘all stakeholders’. There is passionate commentary in favour of a diffuse array of social issues concerning customers, communities, employees, environment and governance. The new corporate strategy and “unique purpose is to feed into customer and community prosperity, not off it”. The ASA debated with the Chair and CEO as to whether BEN’s sense of social responsibility has grown to outweigh their feeling of accountability to shareholders to deliver robust financial performance.

Key Board or senior management changes

Long serving directors Robert Hubbard and Tony Robinson will retire from the board at the AGM on 9 November and Richard Deutsch, who was appointed to the board on 20 September will be up for election.

Summary

(As at FYE)	**2021**	**2020**	**2019**	**2018**	**2017**
NPAT ($m)	$524	$192.8	$376.8	$434.5	$429.6
UPAT ($m)	$457.2	$301.7	$415.7	$445.1	$418.3
Share price ($)	$10.49	$7.01	$11.58	$10.84	$11.08
Dividend (cents)	50c	35.5c	70c	70c	68c
TSR (%)	55.5%	-36.4%	14.2%	4.3%	22.4%
EPS (cents)	98.1	38.1c	77.1c	89.9c	90.9c
CEO total remuneration, actual ($m)	$1.77m	$1.68m	$1.86m	$2.5m	$1.6m

For FY21, the CEO’s total actual remuneration was **19 times** the Australian Full time Adult Average Weekly Total Earnings (based on November 2020 data from the Australian Bureau of Statistics).

Item 2	Re-election of Ms Vicki Carter as a Director
ASA Vote	For

Summary of ASA Position

Ms Carter has been a Director of Bendigo and Adelaide Bank since September 2018. She has been an executive in financial services and telecommunications for over 30 years just recently retiring from her Executive Director role at Telstra. Prior to that she held Executive roles with NAB.

Ms Carter is Chair of the Board Technology Committee and a member of the Board Risk committee and the Governance and Human Resources Committee. She is slated to take over as Chair of the latter when re-elected. She is considered to be an independent director.

The ASA supports Ms Carter's re-election.

Item 3	Re-election of Mr Richard Deutsch as a Director
ASA Vote	For

Summary of ASA Position

Mr Richard Deutsch has just been appointed a director of the Bendigo and Adelaide Bank on 20 September 2021 and so faces his first election. He has been CEO of Deloitte Australia spending 25 years working with the firm. At Deloittes he filled the role of Managing Partner of the Audit and Advisory practice and was a member of the Global Audit and Advisory Leadership Team. With the departure of Robert Hubbard, Mr Deutsch will be parachuted into the Chairman's role of the Board Audit committee.

The bank has determined Mr Deutsch to be 'fit and proper' to hold a director's role and indeed one would envisage that his experience, skills and knowledge would be of advantage to Bendigo and Adelaide Bank.

Mr Deutsch is considered independent and the ASA will support his election.

Item 4	Adoption of Remuneration Report
ASA Vote	Against

Summary of ASA Position

The fixed components of the CEO's package are $1.2 million in cash and 50,000 deferred shares with an attributed value of $500,000 although this is overstated at today's share price.

The bank has done away with short-term incentives (STIs) altogether (from FY20) believing they can lead to inappropriate behaviour by executives. Previous at-risk incentives, STI & long-term incentives (LTI), were merged into two types of incentives, both long term: The Loan Funded Share Plan (LFSP) and LTI performance rights.

The LFSP has been determined as $2,550,000 of shares provided via a non-recourse, interest free loan arrangement. The number is determined by dividing $2.55m by the VWAP price at the time of issue. The LFSP is subject to testing against 4 criteria (cost to income ratio 25%, cash earnings growth 25%, relative net promoter score 25%, market growth 25%) after 2 years and vests at 4 years with a service condition and a 'risk gateway'. The executive is given a further 2 years to pay the loan off to acquire the shares or pass them back with no obligation.

The LTI Performance Rights have a value of $255,000, vest over 4 years and are subject to relative TSR. The CEO is already the holder of around 1,000,000 shares and as such has substantial 'skin in the game'.

The CEO's remuneration package is complex and weighted to shorter term performance given the hurdles for the largest component measured at two years. If she received everything available to her, shareholders would be doing very nicely, but we don't consider it to be sufficiently focussed on the long term. The non-recourse, interest free loan is also seen as a negative. It seems to be if shareholders win, CEO wins, if shareholders lose CEO has only lost the opportunity to win. In terms of quantum, the package is of similar size to those of other Financial Services companies with a market capitalisation of circa $6bn (using Godfrey Remuneration Group as reference).

The company has mandated that all directors must hold shares, equivalent in value to one year's base fee, after 5 years. The Chair said that she noted the ASA's concerns regarding the quantum of shares held by some directors and so the board decided to take this action.

Director's base fees have not increased in FY22.

Item 5	**Allocation of shares to the Managing Director Ms Marnie Baker under the Loan Funded Share Plan**
ASA Vote	**Against**

Summary of ASA Position

The worst aspects of the LFSP are its complexity and the difficulty in accurately attributing a value to the plan. What happens to the share price and dividends in coming years could affect the outcome significantly.

On the positive side, if the CEO maximises her potential, then shareholders will also be doing very well. The package positively links the interest of both parties.

Although the value of shares sounds large at $2,550,000 the CEO still has to pay for them if she is to keep them and will only benefit from any incremental value on the shares she purchases. The dividends she will receive in the meantime will be at risk and will not lead to undue levels of income.

Item 6	**Grant of Performance Rights to the Managing Director under the Omnibus Equity Plan**
ASA Vote	**For**

Summary of ASA Position

The board plans to grant 24,519 performance rights at no cost to the CEO calculated by dividing $255,000 by the VWAP share price of $10.40. They will be tested at the end of a 4-year period against a relative TSR hurdle and are subject to the continued employment of the CEO over that time.

There is nothing excessive about this incentive, it is tied to appropriate testing and is very well aligned to investor interest.

Item 7	**Amendments to the Bank's Constitution – facilitating general meetings using technology, strengthening director eligibility requirements, introducing new proportional takeover approval provisions and other minor and technical improvements.**
ASA Vote	**Undecided**

Summary of ASA Position

The bank is proposing a number of non-controversial changes to it's constitution that reflect changes in law, regulation and market practices. The constitution was last updated in 2012.

The three main changes proposed were; 1) to allow AGM's to be held virtually, 2) to tighten eligibility requirements for directors and 3) to introduce new proportional takeover approval provisions.

1. After meeting with the Chair, we have discovered that they have dropped 'allowing meetings to be held virtually' because of the outcry from others. This is a good outcome.
2. The tightening of eligibility requirements for directors obliges applicants to provide full and relevant information about themselves as requested and ensures that each applicant is eligible to be a director under the Relevant Director Requirements.
3. The ASA is in favour of not allowing proportional takeover offers without full shareholder approval which this amendment is designed to achieve.

We are getting more information on the detailed changes proposed and will decide how to vote undirected proxies when we have received this advice.

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Appendix 1
Remuneration framework detail

CEO rem. Framework for FY22	Target* $m	% Of Total	Max. Opportunity $m	% Of Total
Fixed Remuneration - Cash	$1.2m	46%	$1.2m	46%
Fixed Remuneration - Equity	$0.50m	19%	$0.55m	19%
STI	0	0%	0	0%
LTI – Loan Funded Share Plan	$0.652m	25%	$0.652m	25%
LTI – Performance Rights	$0.255m	10%	$0.255m	10%
Total	$2.607m	100.0%	$2.612m	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, with deferred amounts subject to hurdles in subsequent years before vesting.