



**Major change at the top during challenging times**

<b>Company/ASX Code</b>	Bendigo and Adelaide Bank/BEN
<b>AGM date</b>	Tuesday 29 October 2019
<b>Time and location</b>	11am Head Office, The Bendigo Centre Fountain Plaza, Bendigo Victoria
<b>Registry</b>	Boardroom P/L GPO Box 3993 Sydney NSW 2001 (ph.1300 032 762)
<b>Webcast</b>	Yes
<b>Poll or show of hands</b>	Poll
<b>Monitor</b>	Eric Pascoe, Norm West & Barbara Tadich
<b>Pre AGM Meeting?</b>	Yes, with incoming Chair Ms Jacqueline Hey

<b>Item 1</b>	<b>Consideration of accounts and reports</b>
<b>ASA Vote</b>	No vote required

**Summary of ASA Position**

Bendigo and Adelaide Bank Ltd is the fifth largest bank in Australia but in reality, it is distant from the Big Four banks. It has a unique community-oriented culture, enjoys outstanding brand recognition and rapport with its clients but struggles to compete with the large banks on price and costs. Meanwhile declining interest rates are squeezing the whole banking industry.

In the 2019 financial year (FY19) Bendigo and Adelaide Bank had hoped to capitalise on their relatively good showing at the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry but this has not eventuated for a variety of reasons. The media opportunistically slammed all banks regardless of their degree of culpability and pricing may prove to be a more important motivator for customers than a favourable corporate image. Banking customers tend to be 'sticky' to their institution.

Consequently, Bendigo and Adelaide Bank's performance in FY19 was a little disappointing. The challenge for the new incoming Chair Ms Jacqueline Hey and the CEO Marnie Baker, who has been just 12 months in her role, is to find the ideal formulae for above system growth and success - a task they are pursuing with great conscientiousness but little traction at this stage.

**Governance and culture**

The Bank has always been in the top echelon of companies in both the quality of its governance and the uniqueness of its community focussed culture. Interestingly the board feels that employee confidence took a hit as a result of the banking royal commission. The company is acting to restore employee confidence.

**Financial performance including dividends and shareholder returns**

Bendigo and Adelaide Bank maintained their dividend in the face of declining profits resulting in a pay-out ratio of 82.3% of Cash Profit. Cash earnings declined by 6.6% (7.7% on a per share basis) and is the third half in a row where cash profit has declined.

Whilst Income was almost in line with the previous year already high Operating Expenses jumped from 55.6% to 59.2% which the bank says was due to redundancy and remediation costs. No guarantees could be given that these costs would not continue into F20 as the new CEO and Chair try to shape the company for the long-term future.

### **Key events such as restructures, acquisitions, buy backs and capital raisings**

There were no significant key events in FY19 but given there are realisable economies of scale in the banking industry merger and acquisition must be subjects occupying the minds of directors in the bank that is the largest of the smaller banks.

### **Key Board or senior management changes**

In 2018 Ms Marnie Baker took over as the new CEO/MD and was the first woman in that role. Marnie is a passionate long-term employee of Bendigo Bank. She moved some senior staff and replaced others introducing a new Chief Financial Officer in the process.

Just 12 months later at the upcoming AGM Ms Jacqueline Hey, who has a background in the management of technology companies, will take over as Chair from long serving incumbent Mr Robert Johanson.

Having new players in the bank's two most important positions is very significant and will affect the company's culture, priorities and future direction.

### **Summary**

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	\$376.8	\$434.5	\$429.6	\$415.6	\$423.9
UPAT (\$m)	\$415.7	\$445.1	\$418.3	\$401.4	\$402.8
Share price (\$)	\$11.58	\$10.84	\$11.08	\$9.60	\$12.26
Dividend (cents)	70c	70c	68c	68c	66c
TSR (%)	14.2%	4.3%	22.4%	-16.2%	5.8%
EPS (cents, statutory)	77.1c	89.9c	90.9c	90.4c	92.5c
CEO total remuneration, actual (\$m)	\$1.86m	\$2.5m	\$1.6m	\$2.7m	

For F19, the CEO's total actual remuneration was **approximately 21 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

<b>Item 2</b>	<b>Election of Mr David Foster as a Director</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Mr Foster has been appointed to the board in September 2019. He holds several directorships and has undertaken to give up two Chairmanships prior to the Bendigo Bank AGM. He is an experienced financial services executive having previously held positions with Suncorp and Westpac. He stands as an independent director.

ASA will support his election if he has followed through with his undertaking to resign his two positions as Chairman with other organisations and undertakes to acquire a meaningful stake in the Bendigo and Adelaide Bank within the next 12 months.

<b>Item 3</b>	<b>Re-election of Ms Jan Harris as a Director</b>
<b>ASA Vote</b>	<b>Against</b>

### Summary of ASA Position

Ms Harris has been a member of the board since February 2016. Although she has held senior roles in the Australian Public service, she appears to hold no other directorships of public companies. She has achieved 100% attendance at board, audit and risk committee meetings over the last 12 months.

Ms Harris holds just 2,000 shares in Bendigo & Adelaide which we think is inadequate and a poor example. ASA will vote against Ms Harris' re-election.

<b>Item 4</b>	<b>Re-election of Mr Robert Hubbard as a Director</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Mr Hubbard joined the board in April 2013. His experience is in accounting, finance and risk management having worked as a partner with Price Waterhouse Coopers for 22 years. He has substantial other directorship commitments as Chairman of two ASX listed entities, Orocobre Ltd and Healius Ltd.

Mr Hubbard is put forward as an independent director and ASA supports his re-election.

<b>Item 5</b>	<b>Re-election of Mr David Matthews as a Director</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Mr Matthews has been a director since March 2010. He is very strongly connected to the rural community and was the chairman of the first Community Bank company in Rupanyip and Minyip. He holds directorships with other private and unlisted companies.

This is the last time ASA will recognise Mr Matthews as ‘independent’ but support his re-election.

<b>Item 6</b>	<b>Adoption of Remuneration Report</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

CEO rem. Framework	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.2	44.4%
Cash		
Equity (Deferred)	0.55	20.4%
STI – Cash	0.27	10%
STI – Equity	0.13	4.8%
LTI	0.55	20.4%
Total	2.7	100%

*The amounts in the table above are the statutory 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.*

The Bendigo and Adelaide Bank Ltd has traditionally been conservative and responsible in the payment of its executive according to ASA standards. For example, total remuneration is not excessive and generally below industry averages. They use actual share values (VWAP as at 30<sup>th</sup> June) to calculate the value of equity payments and the company produces a Total Remuneration Realised table annually. The CEO’s LTI vests after 4 years, subject to appropriate testing. Approximately 45% of the CEO’s target remuneration is to be taken as equity with an equity component in each of her fixed remuneration, STI and LTI portions.

A change of note during the year was the removal of an Earnings Per Share test on 35% of the CEO’s LTI in the first year. Now, the only real test applying to this component of the LTI is relative TSR.

The CEO’s actual remuneration was substantially below the Target remuneration (-32%) mainly because she received almost no benefit under the short-term incentive and a lesser benefit than allowed for under the long-term incentive. Arguably, this outcome fairly reflected the company’s performance over the last 12 months.

The board opted not to increase directors’ fees in the coming year and there has been no known adjustment to the CEO’s remuneration for the same period.

The company’s Corporate Governance charter indicates that it is the board’s responsibility to ensure regular reviews of the remuneration policy are conducted and recommendations are made to the board on

the exercise of the board’s discretion relating to the adjustment of performance based components of remuneration including any clawback as well as the thresholds that for STI that trigger deferral. There is no clear distinction made on whether the board’s discretion can be upward or downwards in terms of adjustment. ASA would like to see more clarity relating to how clawbacks and discretion are applied to decision-making regarding remuneration while noting that though the current remuneration policy is not lacking in transparency, we always welcome a more transparent structure.

<b>Item 7</b>	<b>Approval of the Managing Director’s participation in the Employee Salary Sacrifice, Deferred Share and Performance Share Plan</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

As mentioned above the CEO/MD has an equity component in each segment of her remuneration package. Equity is valued at VWAP of shares for the 5 days to June 30<sup>th</sup>.

At last year’s AGM it was approved that the MD would receive 50,000 fully paid Deferred shares annually, for which the only test was continued employment as a Salary Sacrificed part of her Fixed Remuneration. The Deferred Shares are held in trust on behalf of the MD. She cannot trade in them but does receive the dividend income generated.

If the MD’s Short-Term Incentive exceeds \$100,000 then 33.3% of that must also be taken as deferred equity with a maximum potential of \$400,000. Because of the company’s performance no STI pool was established in F19 for the executive team.

The MD has potential to receive 50,000 Performance Rights awarded annually at no cost and which vest over 4 years. These performance rights are granted on the basis of two hurdles. The Company grants 35% of these performance rights subject to the bank Net Promoter Score being 20 points above a peer group of banks and 65% are vested on the basis of relative Total Shareholder Return against the ASX top 100 companies averaged over a 3-year period.

The Board has absolute discretion to adjust variable remuneration including Deferred Base pay, Deferred STI’s and LTI’s. This degree of discretion could test the trust of both executives and shareholders alike but has not been exercised to the extent that it has raised concern for either party to ASA’s knowledge.

ASA feels that the CEO/MD’s remuneration plan is well thought out and her level of remuneration fairly reflects the company’s performance.

<b>Item 8 (A &amp; B)</b>	<b>Approval of selective capital reduction schemes in respect of Convertible Preference Shares 2</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

ASA will vote to approve both Capital Reduction Schemes for CPS2 i.e. Motions 8A and 8B. The board should have the flexibility to manage its funding in a timely manner, it is unpalatable to

consider convening a special meeting at a later date to approve the reduction schemes and we are assured both schemes are fully compliant with the law and have been approved by APRA.

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

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