Australian Shareholders' Association

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BEN WAS AILING BEFORE COVID ARRIVED

Company/ASX Code	BEN
AGM date	27 October 2020
Time and location	11 a.m. AEDT Virtual only
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 Marnie Baker, CEO and Chair, Jacqueline Hey

The individuals involved in the preparation of this voting intention have a shareholding in BEN.

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

Summary of ASA Position

Bendigo and Adelaide Bank Ltd has had a dismal financial year. The question for investors is why. Is the finance industry changing and thus facing reduced profitability, especially for smaller players? Covid, which we hope is a temporary phenomenon, has definitely affected the result but has poor management also contributed? If it is a combination of all of the above then the prospect of future profit growth at BEN looks limited.

The most worrying sign at BEN is the blowout in the cost to income ratio to 62.7% (Target = 50%, CBA is 45%). Covid contributed to costs but the largest costs were redundancies and technology investment write offs. At the same time as the company has paid for redundancies it has hired an additional 236 staff. These are management issues.

A positive is, at this point in time, it would appear that the housing market is holding up and that government stimulus has, to some degree, underwritten the economy.

<u>Governance and culture</u>

BEN, having grown out of a rural city remains true to its community-oriented culture. The bank is so focussed on community, customers and staff, it would sometimes appear that shareholders and the principles of achieving a satisfactory return on investment are subordinated to these other interests.

<u>Financial performance</u>

In the first half to December 31st 2019 BEN reported a 28.2% drop in Net Profit and an 11.4% drop in dividend to 31 cents per share although Cash Earnings per share was only down 3.1%. Operating expenses blew out by 28% on the corresponding half year prior. That was pre-Covid.

By financial year's end and following the onset of Covid-19, Cash Earnings per share have slumped by 30%, Operating Costs have increased 22.2% on the prior corresponding period and Net Profit has fallen 48.8% to $192.8 m. A decision on the final dividend has been deferred.

The bank's stated Total Shareholder Return at financial year's end was negative 36.4%.

Key events

The bank undertook a capital raising in February raising $250m @ $9.34 per share from institutions and $44.8m from a Rights Issue @ $6.72 per share. Although both components were a part of the same capital raising the Rights price was affected by the onset of Covid19 and therefore retail shareholders received a substantial discount to the institutional price. The Capital raising supported Tier One Common Equity ratio (CET1) which sits at 9.25% up from 8.92% last year.

Key Board or senior management changes

The long serving Chairman, Mr Robert Johanson, retired from the board at the end of the 2019 AGM. He has been succeeded as Chair by Ms Jaqueline Hey who has been on the board since 2011. The appointment of Ms Hey now means that women hold the two most senior positions in the company.

In November 2019 Business Enablement Executive Stella Thredgold left the company and in the same month Ryan Brosnahan joined the company as the Chief Transformation Officer. Ms Thredgold received an $810,000 severance payment on departure.

Summary

(As at FYE)	**2020**	**2019**	**2018**	**2017**	**2016**
NPAT ($m)	$192.8	$376.8	$434.5	$429.6	$415.6
UPAT ($m)	$301.7	$415.7	$445.1	$418.3	$401.4
Share price ($)	7.01	$11.58	$10.84	$11.08	$9.60
Dividend (cents)	31c	70c	70c	68c	68c
TSR (%)	-36.4%	14.2%	4.3%	22.4%	-16.2%
EPS (cents)	38.1c	77.1c	89.9c	90.9c	90.4c
CEO total remuneration, actual ($m)	$1.68m	$1.86m	$2.5m	$1.6m	$2.7m

For F20, the CEO's total actual remuneration was **28 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Item 2	Re-election of Ms Jaqueline Hey as a Director
ASA Vote	For

Summary of ASA Position

Ms Hey was first appointed as an independent director at Bendigo Bank in July 2011 and took over as Chair of the board in October 2019. She had an extensive career with Ericsson in Australia, Sweden, the Middle East and the UK. She is also a director at Qantas Airways and AGL Energy.

Ms Hey holds a meaningful quantity of Bendigo Bank shares and the ASA supports her re-election.

Item 3	Re-election of Mr Jim Hazel as a Director
ASA Vote	For

Summary of ASA Position

Mr Hazel was appointed to the Bendigo Bank board in March 2010 as an independent director and so has been there 10 years. His background has been in banking, finance and risk management. He is a director of the Adelaide Football club and Coopers Brewery Ltd. He is Chair of Ingenia Communities Ltd and he is the Pro Chancellor of the University of South Australia.

Mr Hazel is a member of the board Credit Committee and Risk Committee and he is very experienced. His length of tenure however, may prevent the ASA from supporting him in the future but on this occasion, we will vote in favour of the re-election of Mr Hazel.

Item 4	Election of Mr Anthony Fels as a Director
ASA Vote	Against

Summary of ASA Position

Anthony Fels has nominated himself for election to the BEN board. He is a West Australian who has been a farmer, a politician and a rural lender with the Primary Industry Bank.

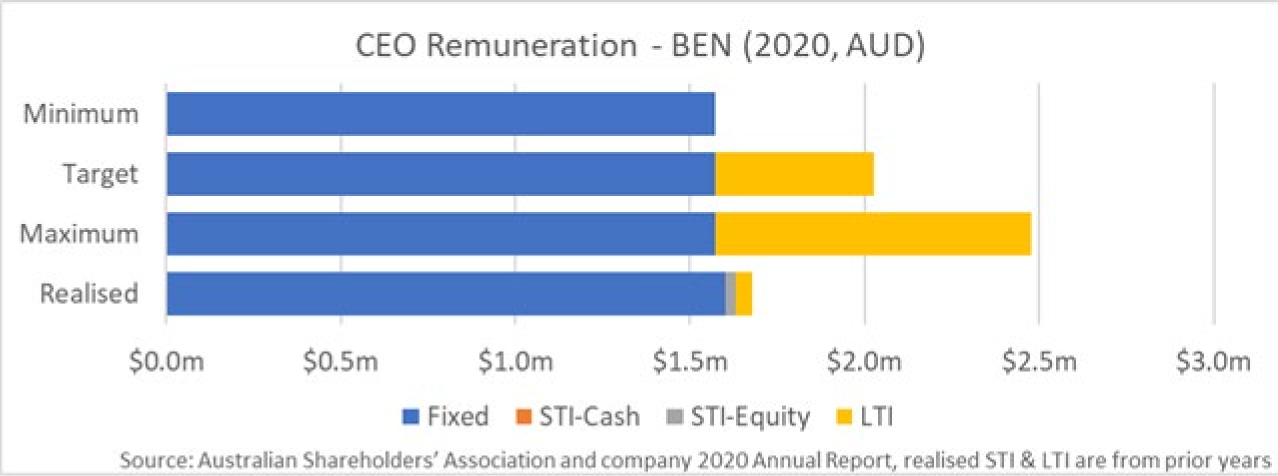
The BEN board has not endorsed Mr Fels. His election would either come at the expense of one of the other candidates standing or mean there was an additional member added to the board.

The ASA made contact with Mr Fels requesting he send through an explanation of why he had chosen to nominate himself for the board, what his credentials for the position were, and what he was aiming to achieve. We received a minimalist reply.

The chair said that when it came time for board renewal, she would like to consider a top field of candidates not just one person who has put their own name forward. We support the boards view and have decided to vote against Mr. Fels' election.

Item 5	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position



In just 2 years Bendigo and Adelaide Bank have managed to take a simple, clean, pay structure for the CEO and turn it into a convoluted hotchpotch. The fixed components of the package remain as per last year. $1.2 million in cash and 50,000 deferred shares with an attributed value of $500,000 although this is considerably overstated at today's share price.

The bank has done away with STI's altogether believing they can lead to inappropriate behaviour by executives. Previous at-risk incentives STI & LTI, have been 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 LFSP is subject to testing against 3 criteria (cost to income 50%, relative NPS 25%, market growth 25%) and vests after 2 years. 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 Total Shareholder Return. The CEO is already the holder of over 800,000 shares and as such has substantial 'skin in the game'.

The CEO's remuneration package, whilst complex, is not excessive and does tie her to the interests of shareholders. If she received everything available to her, she still wouldn't be over paid and shareholders would be doing very nicely.

The Chair has elected to accept a 5% cut to her Director's fee in F21 "in light of the reduction of our share price, and the economic impact on our customers and shareholders".

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 last year 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 F21.

Item 6	**Allocation of shares to the MD under the Loan Funded Share Plan (LFSP)**
ASA Vote	**For**

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 mean time will be at risk and will not lead to undue levels of income.

Item 7	**Grant of Performance Rights to MD under the Omnibus Equity plan**
ASA Vote	**For**

Summary of ASA Position

The board plans to grant 36,376 Performance Rights at no cost to the CEO calculated by dividing $255,000 by the VWAP share price of $7.01. 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 8	**Approval of selective capital reduction schemes in respect of Convertible Preference Shares 3 (CPS3)**
ASA Vote	**For**

Summary of ASA Position

The ASA feels it is important for the board to have the flexibility to deal with CPS3 in the most appropriate manner for the bank as it deals with its management of capital. We have voted similarly on such issues in the past.

Item 9	**Approval of share issue under institutional placement.**
ASA Vote	**For**

Summary of ASA Position

This approval is to be applied retrospectively to the Capital raising earlier in the year and is a legal requirement. The placement of shares constituted approximately 5.4% of the bank's existing capital and helped improve the bank's CET1 ratio during a difficult time. This was completely in line with APRA's requirement that banks remain "unquestionably strong".

The ASA supports this ratification of the bank's actions.