Media Release

Bendigo and Adelaide Bank

Bendigo and Adelaide Bank Full Year 2019 Result

12 August 2019: Bendigo and Adelaide Bank (ASX: BEN), Australia's fifth-largest retail bank, today announced results for the year ending 30 June 2019.

- **Statutory net profit:** $376.8 million, down 13.3 percent[1], as a result of remediation and redundancy costs and unrealised losses relating to Homesafe due to the decline in property valuations in Melbourne and Sydney
- **Cash earnings after tax:** $415.7 million, down 6.6 percent[1], primarily attributable to remediation and redundancy costs
- **Underlying earnings:** $435.7 million, down 2.5 percent[1], excluding remediation and redundancy costs
- **Net interest margin:** 2.36 percent, steady year-on-year, increasing 2 basis points (bps) in second half, compared to the first half
- **Total income:** $1.6 billion, steady[1]
- **Bad and doubtful debts:** $50.3 million, down 28.8 percent[1]
- **CET 1:** 8.92 percent, up 30 bps[1]
- **Cash earnings per share:** 85 cents per share (cps), down 8 percent[1]
- **Total fully franked dividends:** 70.0 cps[2], steady
- **Total lending:** $62.1 billion, up 1.1 percent[3], with residential lending above-system, at 3.5 percent
- **Total deposits:** $64.0 billion, up 1.5 percent[1], with retail deposits up 3.3 percent

Commenting on the results, Managing Director and CEO, Marnie Baker, said, "During the 2019 financial year we began our multi-year journey to reshape our business for the future.

"Earnings for the year were impacted by remediation and redundancy costs. Despite this, we delivered total income of $1.6 billion, in line with the prior year, in an environment of low growth, political uncertainty, subdued consumer confidence and increasing competition.

"Net interest margin was steady year-on-year, and, half-on-half, increased by 2 basis points, reflecting the active management of margin and volume for both lending and deposits.

"We achieved positive momentum from the implementation of our new strategy, with a strong uplift in performance in our key priority markets, particularly half-on-half."

Key metrics

Total lending grew by 1.1 percent to $62.1 billion, with noticeably stronger growth of 3.6 percent in the second half – well above system growth of 2.6 percent. In the second half, residential lending was up 4.3 percent and agribusiness showed growth influenced by seasonality up 12.8 percent, both well above system; whilst small and medium-sized business lending grew 9.5 percent.

Ms Baker said, "We delivered a step-change in customer growth with a four-fold increase in net new customers, taking us to a new milestone of more than 1.7 million customers choosing to bank with us.

"We achieved this growth whilst at the same time recording an increase to our net promoter score to 24.8, which is more than 30 points higher than the average of the major banks[4].

"Our long-term focus and prudent risk management saw Common Equity Tier 1 improve by 30 basis points to 8.92 percent. This strong capital position reflects a stable balance sheet and the continuing movement to lower risk exposures."

Our continued focus on credit quality is reflected in bad and doubtful debts being down 28.8 percent to $50.3 million.

During the year, the Bank divested Bendigo Financial Planning which serves to further simplify and de-risk the business and deliver cost savings.

The Board declared a final dividend of 35 cents[2] per share, taking the fully franked full year dividend to 70 cents per share, continuing our history of rewarding shareholders with a high yield and long-term returns.

Business highlights

Commenting on the Bank's business highlights for the year, Ms Baker said, "The changing banking environment is creating opportunity for us, as is the reshaping of our business and focus on reducing complexity and investing in new capabilities, particularly in customer experience and digitisation.

"Bendigo and Adelaide Bank is consistently ranked as one of Australia's most trusted brands and the top-rated company for customer experience. This sets us apart and is reflected by the commitment and focus of our staff and our capability to continue to attract new customers."

New customers are up by almost two-thirds for the full year, and retention increased to 93.5 percent, resulting in net new customers rising four-fold compared to last year; with equivalent growth half-on-half at 239 percent.

"Our focus on and investment in future growth has produced a 145 percent increase during FY19 in the number of new Millennials choosing to bank with us. This has resulted in a five-year decrease in the average age of new customers across our entire customer base to 35 years. Consequently, the average age of our new customers is below the median age of the Australian population at 37 years[5].

"This is important because as we continue to accelerate the digitisation of our offerings and focus on our priority markets, where we have a clear competitive advantage, establishing and fostering lasting relationships with this younger demographic will deliver significant long-term growth opportunities," said Ms Baker.

During the year, the Bank launched Australia's first and largest next-gen digital bank, Up, which has exceeded initial customer growth expectations. We also became the first lender globally to offer a digital home loan application and assessment process under its own brand, Bendigo Express, using Tic:Toc's instant home loan technology.

A commitment to delivering better and seamless customer experiences is reaching all the Bank's customer channels, including the 'smart' retrofitting of branches designed with the future customer and community in mind. The success of the first pilot at Norwood (SA) has seen a 64 percent increase in foot traffic and significant uplift in business, with more branches to follow.

The Bank is also optimising its physical distribution network based on customer demand. During the year, the Bank closed six branches and 15 agency outlets. Our valued **Community Bank®** partners opened four new **Community Bank®**/Customer Service Centres.

An additional investment in Mobile Relationship Managers (MRM) has taken the Bank's total number of MRMs to 101. This year, MRMs have written in excess of $1 billion in residential loans. Eighty-seven Elders agri-finance managers were also brought into the Rural Bank network. The expected benefits of this new distribution structure include increased growth, stronger operational alignment, greater customer reach and lower costs.

Commenting on the cultural changes occurring within the Bank, Ms Baker said, "By developing an adaptive culture and workforce we are focused on providing a seamless customer experience, lowering our cost base in the medium term and continuing to deliver sustainable growth."

Remediation

Total costs for remediation for the year were $16.7 million. These were all self-reported to the regulator and relate to:

» Insufficient documentation to demonstrate that services had been provided to Bendigo Financial Planning customers in accordance with their service contracts. This business was subsequently sold.

» Products not operating in accordance with their terms and conditions.

Ms Baker said, "The Bank is committed to comprehensively and efficiently addressing where errors lead to poor customer outcomes and we have always taken a proactive and customer focused approach as part of our risk management and governance process. This approach is aligned with Bendigo's values of integrity to maintain customer trust and by taking a conservative view of applying any remediation, including when there was any uncertainty."

Operating expenses

Operating expenses were $954.5 million, up 5.9 percent on prior year. This included $16.7 million remediation costs; and $11.9 million redundancy costs.

Excluding remediation and redundancy costs, adjusted cost to income ratio was 57.4 percent, up from 55.4 percent in prior year, attributable to staff costs, including the additional Elders agri-finance managers; insurance premiums; and IT investment.

"Whilst we're continuing to invest in our capability and total income was steady, we maintain our ongoing focus to sustainably reduce our cost base, targeting a cost to income ratio towards 50 percent in the medium term. This is especially important in a low revenue environment. We will also continue to review and deliver operational efficiencies and expect to see further cost benefits in the next period from redundancies undertaken in this period," Ms Baker said.

Outlook and conclusion

Commenting on the external environment, Ms Baker said, "While we always take a long-term view, we are acutely aware of the prevailing economic conditions and market cycles. Business conditions remain reflective of slow but steady growth, and future growth is supported by accommodative monetary and fiscal policy.

"There has been an uptick in auction clearance rates in Melbourne and Sydney, and business confidence is largely positive, being around the 10-year average. However, we acknowledge sentiment plays a significant role in supporting consumer confidence and business investment and that sentiment has of late been somewhat fickle."

Looking ahead, Ms Baker said, "We are focused on our imperatives and market opportunities. As we accelerate our strategy, we continue to focus on the unique prospects in our key priority markets; investing in our capability to ensure we have adaptive people and a strong, agile culture; and continuing our successful and proven track record of innovation; whether through technology or our proud partnership models.

"Underpinning our strategy is the success of our growth in new customers. This gives us an outstanding opportunity to foster more customer relationships through their life stages. And thanks to our strong reputation and consistently high customer experience ranking, we are well placed to take advantage of market changes that will make it easier for customers to switch banks.

"However, we are not complacent. We must constantly evolve and change because our customers' needs are rapidly changing and because the banking environment varies with market cycles and macro-economic conditions.

"That is why we are absolutely committed to lowering our medium-term cost base so we can continue to deliver sustainable growth.

"During the last six months, we have laid solid foundations, achieved success and will accelerate the organisational change required during the coming year. We are looking to the future for our customers and for all our stakeholders as we drive our multi-year journey to become Australia's bank of choice."

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Full Year Result webcast:

The full results presentation will be held on Monday 12 August at 10:00am AEST. Click here to watch the live 2019 Full Year Results Announcement. A replay of the webcast will then be made available at the Bendigo and Adelaide Bank website from 2.00pm www.bendigoadelaide.com.au/FY19-results

1. All results relate to the full year ended 30 June 2019, with all comparisons against "prior corresponding period". The term "prior corresponding period" refers to the full year ended 30 June 2018.
2. Ex-dividend date for final dividend of 35¢ is 02 September 2019, record date is 03 September 2019, and dividend payment date is 30 September 2019.
3. APRA Monthly Banking Statistics June 2019. Data is a growth rate based on a 12-month period (30/06/18 – 30/06/19) for Bendigo and Adelaide Bank Limited and System.
4. Roy Morgan Single Source (Australia), rolling 6-month comparisons as at June 2018 and June 2019 NPS of those with any financial relationship with the bank.
5. ABS – 2018 https://www.abs.gov.au/ausstats/abs@.nsf/0/1CD2B1952AFC5E7ACA257298000F2E76?OpenDocument

Appendix: Reconciliation of statutory earnings to cash earnings

$ million	FY19	FY18
Statutory Profit after tax	**376.8**	**434.5**
Fair value adjustments	0.3	0.8
Homesafe unrealised adjustments	29.5	(26.8)
Hedging revaluation	(7.4)	(1.2)
Loss on sale of business	1.6	1.2
Integration costs	0.5	5.3
Impairment charge	0.5	0.4
Operating expenses[1]	1.4	13.8
Amortisation of intangibles	2.6	5.8
Cash earnings after tax (sub-total)[2]	**405.8**	**433.8**
Homesafe net realised income after tax	9.9	11.3
Cash earnings after tax	**415.7**	**445.1**
Remediation	$11.7	$0.4
Redundancy	$8.3	$1.6
Underlying earnings	**$435.7**	**$447.1**

[1] Operating expenses includes legal, litigation and compensation costs.
[2] Cash earnings subtotal is equal to cash earnings before Homesafe realised income.