

ASX Announcement



Bendigo and Adelaide Bank 2020 Interim Financial Result

17 February 2020: Bendigo and Adelaide Bank (**ASX: BEN**), Australia's fifth-largest retail bank, today announced interim results for the half year ending 31 December 2019.

- » **Statutory net profit:** \$145.8 million, down 28.2 percent¹, including a pre-tax software impairment of \$87.1 million and accelerated amortisation of \$19.0 million
- » **Cash earnings after tax:** \$215.4 million, down 2 percent¹
- » **Net interest margin:** 2.37 percent, up 2 basis points¹ (bps)
- » **Total income on a cash basis:** \$814.7 million, up 1.4 percent¹
- » **Bad and doubtful debts:** \$23.2 million, down 9 percent¹
- » **CET 1:** 9 percent, up 24 bps¹
- » **Cash earnings per share:** 43.7 cents per share (cps), down 3.1 percent¹
- » **Total fully franked dividends:** 31 cps², down 4 cps
- » **Total lending:** \$62.9 billion, up 2.8 percent¹
- » **Residential lending:** above system at 7.7 percent³
- » **Total deposits:** \$66.6 billion, up 5.1 percent¹, with customer deposits up 3.8 percent¹

Managing Director and CEO, Marnie Baker, said, "Our interim results, underpinned by our market leading trust ratings, strong growth, above system lending, margin management, asset quality and growth in new and existing markets, affirms our multi-year strategy to be Australia's bank of choice.

"Earnings for the half were impacted by ongoing technology investment, regulatory and compliance costs and staff investment to support mortgage growth. Despite this, we delivered total income of \$814.7 million, up 1.4 percent on the prior corresponding period, in a challenging environment comprised of low rates, increasing regulatory pressure, low consumer and business confidence and growing competition.

"Strong customer growth continued with the total number of customers choosing our Bank increasing 4.9 percent in the half. This sustained growth set a record of more than 1.8 million customers. Our net promoter score is 27.2 higher than the average of the major banks⁴."

Key metrics

"We are seeing positive momentum from the implementation of our strategy one year into our multi-year journey. By reducing complexity and increasing our capability to achieve sustainable growth, a seamless customer experience and a lower cost base, we saw continued performance in our key priority markets."

Total lending continued to grow to \$62.9 billion, up 2.8 percent on the prior corresponding period and above system. In the half, residential lending was well above system at 7.7 percent³, reflecting strong customer demand driven by strategic focus in our retail and third-party businesses. Agribusiness lending was down 6.8 percent⁵, influenced by seasonality and the ongoing multi-year drought. Rural Bank continued to diversify its earnings with growth in its Government Services business delivering a revenue uplift.

For small business customers, focused relationship banking strategies delivered growth and margin improvement, with small business lending up 15.6 percent⁵.

"Our Consumer Banking division performed strongly, driven by investment in processing capacity, to support settlement growth, new mobile relationship and business development managers and new and enhanced third

party white label partnerships. Lending applications increased 45 percent and settlements 35 percent on the prior half.

“Net interest margin increased 2 basis points on the prior corresponding period to 2.37 percent, reflecting the active management of margin and volume for lending and deposits.

“Our ongoing focus on credit quality is reflected in our bad and doubtful debts, down 9 percent to \$23.2 million. All business divisions are well secured, and portfolio performance remains sound,” said Ms Baker.

Business highlights

“Our strategy, combined with high trust, innovative products, technology investment, deep community connection and consistently leading customer experience, continues to deliver positive business and customer growth.

“Bendigo and Adelaide Bank proudly continues to be ranked in Australia’s top 10 most trusted brands and amongst the top-rated companies for customer experience. Our unique brand position is a key differentiator and a result of operating with integrity and delivering an enhanced customer experience and meaningful community outcomes.

“Our focus on digitisation and investment in future capability has seen the average age of our customers continue to decrease. The average age of new customers continues to be more than 10 years younger than the average age of the customer base. The net growth in the number of millennials choosing to bank with us increased 349 percent on the prior corresponding period and we also saw an uptick in small business customers.

“Our strategy to develop lasting relationships with millennials is designed with future growth in mind and our strong customer growth validates our proposition to this market.

“Our digital partnerships continue to grow, with Up, the first digital or neobank to launch in Australia, increasing its customer numbers by 57 percent in the half to more than 165,000 customers. Tic:Toc continues to deliver sustained growth with approvals in the first half up 55 percent on the previous half.”

The Bank continues to modernise its physical distribution network based on customer demand. This includes branch rationalisation where appropriate, continued investment in mobile relationship managers and clustering specialist capability and management resources to more efficiently manage operations. During the half, the Bank closed five branches and one agency outlet and opened two new agencies. The total number of national points of presence is more than 700.

As part of a commitment to offer tailored customer experiences, the Bank also launched two additional innovative concept branches in Carlton, Victoria and Leichhardt, New South Wales. This follows the success of Norwood, South Australia, which launched in November 2018 and has seen average foot traffic increase 56 percent. Since opening, two and four months ago, foot traffic in Carlton and Leichhardt has increased 56 percent and 188 percent respectively.

Supporting our commitment to reduce complexity and deliver the highest levels of service and outcomes, the Bank has:

- Successfully completed the transfer of Bendigo Financial Planning to Bridges Financial Services.
- Automated its scheduled review process, improving customer experience and productivity in Business Banking by reducing time spent on administration, allowing relationship business bankers to focus on delivering customer value.
- Transferred Rural Bank to Bendigo and Adelaide Bank's authorised deposit-taking institution (ADI) licence, delivering cost savings and efficiencies.

Investment in staff capability continued, with more than 400 in-branch digital coaches trained to support customers in their use of digital assets and services. Additionally, the Bank rolled out resilience and wellbeing training to Rural Bank, Consumer and Business employees in drought and bushfire affected areas.

"We provide continued proactive relationship management and hardship assistance to customers and communities impacted by drought and bushfires but expect most customers to operate within existing limits and facilities for the current year.

"Our investment in capability and reducing complexity is supporting the disciplined execution of our strategy to provide a seamless customer experience, ensure sustainable growth and maintain balance sheet strength."

Accelerating investment in technology and digital

"The first half of FY20 saw an additional \$16.9 million invested in systems and process simplification, automation, strengthened digital services and capability, including open banking, and compliance and regulatory initiatives, to drive a consistent and reliable customer experience across all channels and deliver efficiencies as we target a medium term cost to income ratio towards 50 percent.

"As we continue our growth trajectory, we will accelerate the level of investment in technology and digital initiatives to boost scale, further remove complexity and cost from our business and deliver the banking experience of the future. We will continue to take full advantage of the growth opportunities before us," said Ms Baker.

Capital raising and reduced dividend

"Common Equity Tier 1 improved by 24 basis points to 9 percent on the prior corresponding period as a result of our long-term focus and prudent risk management. Our continued strong capital position reflects a stable balance sheet and the ongoing movement to lower risk exposures.

"Further, we plan to raise \$300m of capital via an underwritten institutional placement and non-underwritten share purchase plan (SPP). The proceeds of the capital raising will be used to support the growth the Bank is experiencing in its residential mortgage lending, further strengthen our balance sheet and provide an increased buffer above APRA's 'unquestionably strong' CET1 capital ratio requirements. The raising will also provide flexibility to invest in technology and regulatory-related change initiatives as we continue to deliver a seamless customer experience.

"We have made a difficult decision to reduce our first half dividend by 4 cents to 31 cents per share. We have a history of rewarding shareholders with a high yield and long-term returns. We feel this reduction was required given the capital raising to ensure sustainability of the dividend, retain funds for growth and to enable us to continue to deliver our strategy."

Operating expenses

Operating expenses were \$487.4 million, up 5 percent on the prior corresponding period. This excludes pre-tax software impairments (\$87.1 million) and software accelerated amortisation charges (\$19.0 million), following reviews of the Bank's software assets.

The Bank continues to progress towards meeting the requirements for advanced accreditation for credit risk. Whilst there is uncertainty around the potential capital benefits, which have undoubtedly contracted significantly over the last few years given the regulatory changes, the Bank views maintaining its program as important. This will enable the Bank to fully assess its options once the prudential standards for credit risk under both the standardised and IRB approaches are finalised.

Cost to income ratio was 59.3 percent, up 200 basis points on the prior corresponding period, attributable to IT investment to support key growth areas and an increase in staff costs to support the Bank's strategy.

"As we invest in our long-term capability, we maintain our focus on reducing our cost base, which will require continued investment in digital and technology in the short term, before cost to income declines towards 50 percent in the medium-term," said Ms Baker.

Outlook

"The market faces heightened regulatory focus, below average business confidence, increasing frequency and severity of weather events due to climate change, constantly changing and heightened customer preferences, global trade tensions and the longer-term impacts of drought, bushfires and Coronavirus. Despite this, we also continue to see steady recovery in the housing market, employment growth up - at 2.1 percent - and expect the RBA cash rate to remain below 1 percent continuing to support economic growth.

"We expect our mortgage lending growth rates to continue to exceed system, our small business portfolio to continue to grow at similar rates and our Commercial Real Estate business to grow.

"Accelerating investment in partnerships, reducing complexity, automation and risk and compliance will ensure improved scalability of the business and flexibility to support sustainable future growth. Our strong customer growth, cost base focus and commitment to a seamless customer experience through a proven history of technology and partnership innovation, combined with our accelerated digital and technology investment, will ensure we capitalise on the future as more customers choose to join the better big bank.

"As we continue to invest and evolve our business for the future, we look forward to realising our vision to be Australia's bank of choice," concluded Ms Baker.

Interim Result webcast:

The full results presentation will be held on Monday 17 February at 10:00am AEST. [Click here](#) to watch the live 2020 Interim 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/2020-interim-results

1 All results relate to the half year ended 31 December 2019, with all comparisons against "prior corresponding period". The term "prior corresponding period" refers to the half year ended 31 December 2018

2. Ex-dividend date for final dividend of 31¢ is 06 March 2020, record date is 09 March 2020, and dividend payment date is 31 March 2020

3. APRA Monthly Banking Statistics December 2019. Data is an annualised growth rate based on a 6-month period (30/06/19 – 31/12/19)

4. Roy Morgan Net Promoter Score – Roy Morgan Research for the period July – December 2019 comparing BEN to the average of majors. Net Promoter, Net Promoter System, Net Promoter Score, NPS and the NPS-related emoticons are registered trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc.

5. Data is an annualised growth rate based on a 6-month period (30/06/19 – 31/12/19)

Appendix: Reconciliation

	1H20 (\$m)	2H19 (\$m)	1H19 (\$m)
Statutory Profit after tax	\$145.8	\$173.6	\$203.2
Fair value adjustments	\$0.1	\$0.1	\$0.2
Homesafe unrealised adjustments	(\$22.6)	\$19.3	\$10.2
Hedging revaluation	\$8.9	(\$6.1)	(\$1.3)
Loss on sale of business	-	\$1.6	-
Software impairment	\$60.9	\$0.5	-
Software accelerated amortisation	\$13.2	-	-
Operating expenses ²	\$3.0	\$0.5	\$1.4
Amortisation of intangibles	\$1.1	\$1.5	\$1.1
Cash earnings after tax (sub total)¹	\$210.4	\$191.0	\$214.8
Homesafe net realised income after tax	\$5.0	\$4.9	\$5.0
Cash earnings after tax	\$215.4	\$195.9	\$219.8

¹ Cash earnings after tax (subtotal) is equal to cash earnings before Homesafe realised income

² Operating expenses included integration, legal and compensation costs

Approved for release by: The Bendigo and Adelaide Bank Board

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About Bendigo and Adelaide Bank Limited

Bendigo and Adelaide Bank is Australia's fifth largest retail bank, with more than 7,200 staff helping our 1.8 million customers to achieve their financial goals. Bendigo and Adelaide Bank's vision is to be Australia's bank of choice, by feeding into the prosperity of customers and their communities, not off it.

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