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Ratings

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Bendigo and Adelaide Bank Ltd.

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Table Of Contents

Table Of Contents (cont.)

Bendigo and Adelaide Bank Ltd.

Ratings Score Snapshot

Issuer Credit Rating
A-/Stable/A-2

SACP: a- → **Support: 0** → **Additional factors: 0**

Anchor	a-	
Business position	Adequate	0
Capital and earnings	Strong	+1
Risk position	Adequate	0
Funding	Moderate	-1
Liquidity	Adequate	
CRA adjustment		0

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
A-/Stable/A-2

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview	
Key strengths	**Key risks**
Strong capitalization.	Price taker in the commoditized Australian retail banking market.
Sound asset quality, supported by low-risk residential lending.	Funding sources susceptible to pressure in a stressed operating environment.

Bendigo and Adelaide Bank Ltd.'s (BEN) capitalization will remain a credit strength. We project our risk-adjusted capital (RAC) ratio for the bank will remain strong at 13.5%-14.0% over the next 24 months. As of June 30, 2024, our RAC ratio for BEN was 14.4%.

BEN will continue with its low-risk business model of predominantly writing mortgages, funded by retail deposits. Given this focus, we expect the bank to maintain below system credit losses of about 10 basis points (bps) over the next 12-24 months.

BEN will remain a price taker. Like its regional peers, the bank remains vulnerable to competitive pressures from Australia's four major banks. These banks collectively make up about 72% of the country's residential lending market, compared with BEN's market share of about 2%.

The Australian major banks could exert funding pressure on BEN, in our view. This could happen if the major banks decided, or were forced, to compete more aggressively for domestic deposits due to a dislocation in foreign capital markets.

Outlook

The outlook is stable. Australia's economic prospects over the next two years are sound, despite subdued GDP growth due to elevated interest rates and the slowing economies of major trade partners. We forecast unemployment will increase somewhat but remain low in a historical context. We expect modest growth in house prices over the period. Strong immigration-driven population growth along with limited new housing supply should continue to support house prices.

Consequently, BEN will likely maintain sound earnings with low credit losses, at about 10 bps of customer loans. We expect the bank to remain well capitalized with a RAC ratio of 13.5%-14.0% over the next two years.

Downside scenario

We view a downgrade of BEN as unlikely over the next two years. Nevertheless, we could lower our ratings on BEN if, for example, systemwide risks rise due to rapid growth in Australian property prices or private sector debt.

Upside scenario

We see a low likelihood of a higher rating over the next two years. This is because we consider it unlikely that BEN will strengthen its business position or funding profile to a level comparable with the Australian major banks.

Key Metrics

Bendigo and Adelaide Bank Ltd.--Key ratios and forecasts

	--Fiscal year ended Jun. 30 --				
(%)	**2023a**	**2024a**	**2025f**	**2026f**	**2027f**
Growth in operating revenue	13.5	6.5	0.1-0.1	4.5-5.5	4.5-5.5
Growth in customer loans	1.2	2.6	5.9-7.2	5.9-7.2	5.8-7.1
Growth in total assets	3.4	-0.3	5.7-6.9	5.7-6.9	5.7-7.0
Net interest income/average earning assets (NIM)	1.9	1.8	1.7-1.9	1.7-1.9	1.7-1.9
Cost to income ratio	60.1	60.1	59.5-62.5	56.6-59.5	54.6-57.4
Return on average common equity	6.8	7.2	6.4-7.0	7.1-7.9	7.7-8.5
Return on assets	0.5	0.6	0.5-0.6	0.5-0.6	0.5-0.6
New loan loss provisions/average customer loans	0.0	0.0	0.0-0.1	0.0-0.1	0.0-0.1
Gross nonperforming assets/customer loans	0.6	0.5	0.6-0.6	0.6-0.6	0.6-0.6
Net charge-offs/average customer loans	0.0	0.0	0.1-0.1	0.1-0.1	0.1-0.1
Risk-adjusted capital ratio	14.2	14.4	14.2-14.7	13.7-14.3	13.3-13.9

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: Resilient Economy, Conservative Regulations, And Low Risk Appetite Mitigate Housing And Funding Risks

The starting point for our ratings on BEN--similar to all other banks operating predominantly in Australia--reflects our assessment of Australia's macroeconomic environment.

Australia has a wealthy, open, and resilient economy that has performed relatively well following economic downcycles and external shocks. Low unemployment over the next two years should keep credit losses low, and close to pre-pandemic levels. Nevertheless, banks in Australia remain exposed to a jump in credit losses due to high household debt, elevated interest rates and prices, and global economic uncertainties. We expect the persistent gap between housing demand and supply to drive modest growth in property prices in the next two years.

We consider Australia's prudential regulatory standards and supervision to be among the strongest globally. In our view, an oligopolistic industry structure supports system stability. Sound earnings and solid interest margins should protect the banking system from unforeseen events, including a significant rise in credit losses. A material dependence on external borrowing exposes Australian banks to funding disruptions.

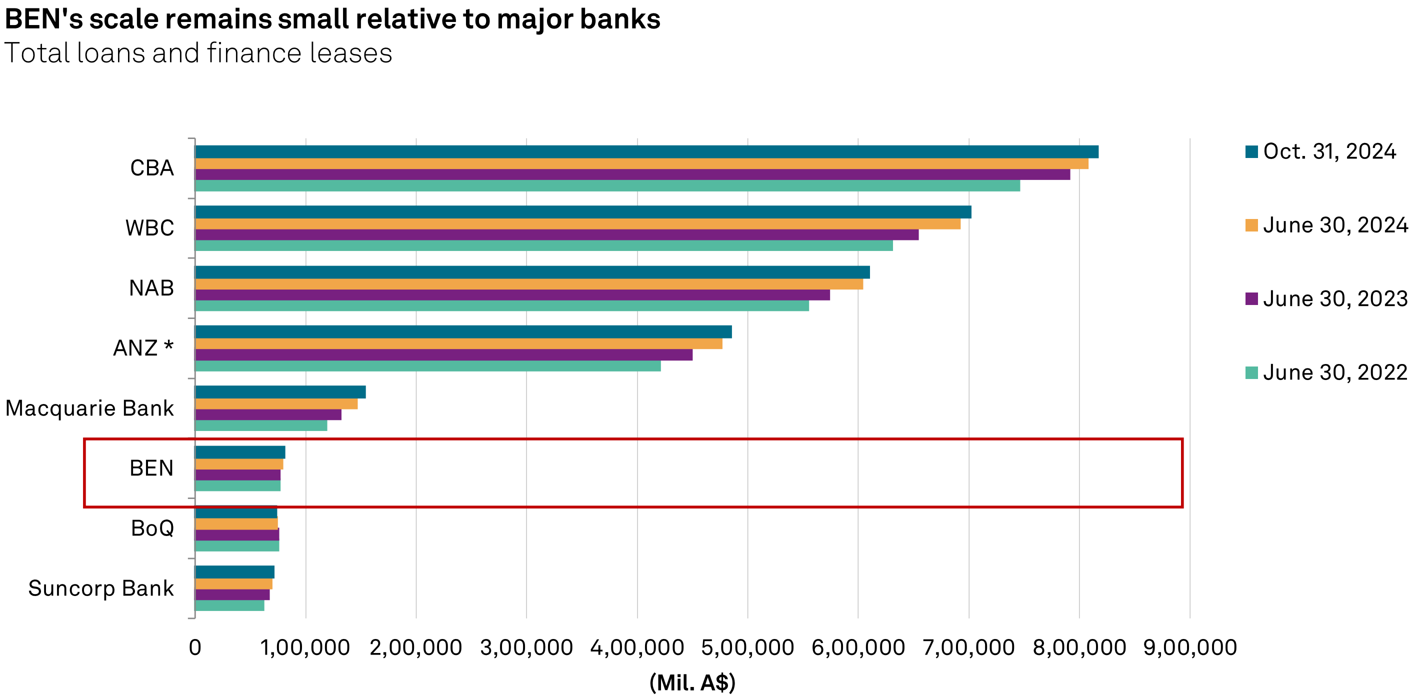
Business Position: Large Regional Player But Still Small Relative to Major Banks

BEN will remain a price taker in Australia's lending market. We believe the regional lender will remain susceptible to competitive pressures from Australia's four major banks, which collectively account for about 72% of the Australian lending market. As of Oct. 31, 2024, BEN had a market share of 2.2%.

We view BEN's business position to be broadly comparable with similarly sized peers, Bank of Queensland Ltd. (A-/Negative/A-2), Norfina Ltd. (trading as Suncorp Bank; AA-/Stable/A-1+) and ING Bank (Australia) Ltd. (A/Stable/A-1). We believe all small and midsized banks in Australia will remain susceptible to competitive pressures from Australia's major banks, whose material market share and significantly larger size provide them with greater pricing power and cost efficiencies.

That said, the stability of BEN's business is much less vulnerable to adverse operating conditions than the smaller Australian mutual banks, in our view. This is because they have much weaker economies of scale and lower cost efficiencies relative to both the regional and major banks.

Chart 1



*Does not include Suncorp Bank exposures. CBA: Commonwealth Bank of Australia, WBC: Westpac Banking Corp., NAB: National Australia Bank Ltd., ANZ: Australia and New Zealand Banking Group Ltd., BEN: Bendigo and Adelaide Bank Ltd., BoQ: Bank of Queensland Ltd. Source: Australian Prudential Regulation Authority.

Process simplification will continue to support BEN's long-term growth in an increasingly homogeneous market. BEN's plan to consolidate its three remaining legacy core banking systems onto a single platform will reduce operating complexity. Likewise, continuous automation of the lending process such as credit-decisioning is leading to faster approval times. We believe process efficiencies like these will become increasingly important for winning and keeping business in the competitive Australian residential mortgage market.

BEN's multi-brand strategy helps it target specific customer segments. The bank's utilization of unique brands for general retail and commercial, agricultural, and digital banking allows it to target different customer segments. For example, the bank services rural and agricultural customers through its Rural Bank brand and younger demographics via its digital offering, Up Bank.

A large branch network will remain important to BEN's franchise strength. The bank had the third largest network of 423 branches in Australia as of June 30, 2024. About 70% of these were community-affiliated, with the balance being proprietary. While a physical footprint will remain important to the bank's operating model, we consider branch consolidation to be inevitable.

This will occur as consumer preferences shift to digital channels and the underlying costs of running a branch remain high relative to servicing customers digitally. That said, given the unique importance of branches to BEN's franchise and funding profile, we expect the rate of attrition to be slower for BEN than the major banks.

Capital And Earnings: Strong Capital Position

BEN's capital will remain strong. We project our RAC ratio for the bank will fall slightly to 13.5%-14.0% over the next two years. This reflects our view that the bank will grow its loan book slightly faster than system over the next two years, while its net interest margin (NIM) will contract slightly. As of June 30, 2024, our RAC ratio for BEN was 14.4%.

BEN will maintain its capital well-above regulatory minimums. BEN will maintain its capital well above regulatory minimums. As of Sept. 30, 2024, the bank had a common equity Tier-1 (CET-1) ratio of 10.9%. It aims to manage this ratio above its board-mandated minimum of 10.0%. That said, we expect BEN to reduce its current buffer above this level over time. As a result, our RAC ratio could decrease but should remain well above 10.0%.

We expect loan growth to be above system over the next two years. BEN's loan growth lagged system levels in the past two years, with the bank prioritizing NIM preservation. Likewise, in the past 24 months, BEN's NIM also benefited from high interest rates and inexpensive funding from the Reserve Bank of Australia (RBA) Term Funding Facility.

That said, we believe BEN's NIM has peaked and our forecasts assume a marginal contraction over the next 24 months. Drivers will be competition and potential interest rate cuts.

Risk Position: Residential Mortgage Lending Underlines Sound Asset Quality

BEN's risk profile is consistent with the broader Australian banking system. We believe the standard risk weights we apply in our capital and earnings assessment appropriately reflect the bank's risk profile. This is consistent with our view of almost all other banks in Australia.

We do not consider BEN's core banking operations to be complex or high-risk. The bank mostly operates in retail banking. In our opinion, BEN has adequate risk management systems and practices for an organization of its size and complexity. Likewise, BEN's ongoing cloud migration and technology rationalization will improve efficiencies, decrease operating costs, and reduce the likelihood of major operational risk events.

BEN will maintain conservative lending and underwriting standards, similar to other banks in Australia. The bank's overall nonperforming asset (NPA) levels improved to about 53 bps of customer loans as of June 30, 2024, from about 58 bps 12 months earlier. Driving this was a decrease in business and consumer loan arrears. We expect NPAs to increase slightly but remain well below pre-pandemic levels over the next 12-24 months.

Funding And Liquidity: Not Immune To Funding Pressure From Major Banks

The four major banks and Macquarie Bank Ltd. have stronger funding profiles than all other Australian financial institutions, including BEN. This is because we believe the major banks have greater deposit-pricing power, stronger franchises, and deeper access to domestic and global capital markets. We believe the major banks could potentially bring funding pressure on all other Australian financial institutions if they decided, or were forced, to compete more aggressively for domestic deposits due to a dislocation in overseas wholesale funding markets.

BEN's extensive branch network will remain a stable source of deposit growth. In the 12 months to June 30, 2024, BEN grew its deposit book by about 2%, compared with 4.7% for the wider system. Retail deposits accounted for about 76% of the bank's funding profile at the end of fiscal 2024. This includes deposits sourced via the bank's large community-branch network, which accounted for about 34% of its overall funding base.

Deposits sourced digitally via Up Bank have also increased, with the channel increasing its deposit balance by 57% over the 12 months to June 30, 2024. While small relative to BEN's current funding profile, we believe Up Bank will become an increasingly attractive source of new funds for the bank.

That said, BEN will remain susceptible to competitive pressures from Australia's major banks during periods of market stress, particularly in competing for deposits.

BEN's regulatory funding and liquidity ratios will remain well above the prudential minimum requirements. The bank had a net stable funding ratio of 116% as of June 30, 2024. At the same time, its quarterly average liquidity coverage ratio was 138%. The Australian Prudential Regulation Authority requires BEN to maintain both ratios above 100%.

BEN has sufficient on-balance sheet liquidity to meet at least 12 months of general market stress. The bank had a short-term wholesale coverage ratio (which measures on-balance sheet liquidity cover for wholesale funding maturing within 12 months) of 0.9x as of June 30, 2024. While this was lower than the 1.4x average for the major banks, BEN could also effectively draw on contingent liquidity from the RBA via repurchase agreements of internally securitized mortgages. As of June 30, 2024, BEN had access to about A$12 billion under its internal securitization program.

Notwithstanding this, we do not foresee any large or unusual liquidity needs for the bank over the next 12-24 months.

Support: Extraordinary Government Support Unlikely

We consider BEN's ultimate creditworthiness to be in line with our assessment of its stand-alone credit profile (SACP). We see low likelihood of extraordinary government support for the bank, if required, because an absence of such support is unlikely to cause financial systemwide disruption, in our view. This is primarily due to BEN's small size relative to the major banks. BEN's total residents assets of about A$112 billion as of Oct. 31, 2024, represented about 2% of total residents assets for the system.

Other Rating Matters

We believe Australia's legal and regulatory framework could allow the authorities to instigate loss absorption by the regulatory additional Tier-1 and Tier-2 securities, if needed. Therefore, we assign our 'BBB' ratings to BEN's Basel III-compliant Tier-2 securities. This is two notches below the bank's SACP of 'a-'. We deduct one notch reflecting the notes' subordinated status and one notch to reflect the contingency clause that requires the mandatory conversion of the securities into common equity on the activation of a nonviability trigger.

Environmental, Social, And Governance

BEN's risk management, governance policies, and practices are adequate for an organization of its size and complexity. Given the retail banking services the bank provides, we view social factors as important. These include its obligation to lend responsibly and ensure customers have adequate understanding of bank credit products.

BEN's community banking model supports its domestic franchise and differentiates it from other midsized peers. The bank's community bank branches account for about 70% of its total physical presence. They are owned and managed by members of the community in which they are located. Each community decides where to invest some of the branch's earnings.

We see environmental factors as less relevant than social and governance factors to the creditworthiness of BEN. The mining sector accounts for only about 1% of the total domestic lending by the Australian banking sector. Still, we believe the bank is indirectly exposed to environmental factors. This is because it operates in an economy where the commodities sector is significant. Evolution of domestic and global environmental standards and legislations and changing customer preferences leading to a transition toward less carbon-intensive forms of energy could weaken the broader economy and consequently, the bank's lending portfolio.

Key Statistics

Table 1

Bendigo and Adelaide Bank Ltd.--Key figures					
	--Fiscal year ended June 30--				
(Mil. A$)	**2024**	**2023**	**2022**	**2021**	**2020**
Adjusted assets	96278.1	96637.8	93431.3	85027.8	74444.3
Customer loans (gross)	80853.6	78812.6	77894.2	72261.6	65322
Adjusted common equity	4983.5	4847.8	4705	4608.8	4224.9
Operating revenues	2021.5	1898.9	1673.1	1785.2	1614.1
Noninterest expenses	1214.4	1140.5	998.9	1013.5	1037.6
Core earnings	500.6	459.2	465.9	503.9	284.9

Table 2

Bendigo and Adelaide Bank Ltd.--Business position					
	--Fiscal year ended June 30--				
(%)	**2024**	**2023**	**2022**	**2021**	**2020**
Total revenues from business line (currency in millions)	2,021.5	1,898.9	1,673.1	1,785.2	1,614.1
Commercial & retail banking/total revenues from business line	92.9	101.4	99.4	99.2	98.2
Other revenues/total revenues from business line	7.1	(1.4)	0.6	0.8	1.8
Return on average common equity	7.2	6.8	7.1	8.3	2.9

Table 3

Bendigo and Adelaide Bank Ltd.--Capital and earnings

	--Fiscal year ended June 30--				
(%)	**2024**	**2023**	**2022**	**2021**	**2020**
Tier 1 capital ratio	13.4	13.4	11.6	11.6	11.6
Adjusted common equity/total adjusted capital	86.3	85.6	85.2	85.0	82.6
Double leverage	1.5	1.6	1.8	1.7	2.5
Net interest income/operating revenues	80.9	86.4	84.4	79.7	82.6
Fee income/operating revenues	8.7	9.0	9.9	10.8	11.9
Market-sensitive income/operating revenues	1.6	1.6	1.5	0.7	1.9
Cost to income ratio	60.1	60.1	59.7	56.8	64.3
Preprovision operating income/average assets	0.8	0.8	0.7	0.9	0.8
Core earnings/average managed assets	0.5	0.5	0.5	0.6	0.4

Table 4

Bendigo and Adelaide Bank Ltd.--Risk-adjusted capital framework data

(Mil. A$)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**Standard & Poor's RWA**	**Average Standard & Poor's RW (%)**
Credit risk					
Government & central banks	11,477.6	25.0	0.2	344.3	3.0
Of which regional governments and local authorities	0.0	0.0	0.0	0.0	0.0
Institutions and CCPs	1,582.1	241.0	15.2	271.6	17.2
Corporate	747.4	872.0	116.7	1,025.4	137.2
Retail	80,369.6	31,791.0	39.6	30,874.6	38.4
Of which mortgage	63,665.6	21,122.0	33.2	18,427.0	28.9
Securitization§	3,149.5	564.0	17.9	704.7	22.4
Other assets†	2,364.5	1,750.0	74.0	3,046.7	128.9
Total credit risk	99,690.6	35,243.0	35.4	36,267.3	36.4
Credit valuation adjustment					
Total credit valuation adjustment	--	30.3	--	0.0	--
Market Risk					
Equity in the banking book	0.0	0.0	0.0	0.0	0.0
Trading book market risk	--	0.5	--	0.8	--
Total market risk	--	0.5	--	0.8	--
Operational risk					
Total operational risk	--	2,731.1	--	3,901.5	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	38,004.9	--	40,169.6	100.0
Total Diversification/ Concentration Adjustments	--	--	--	6,592.5	16.4
RWA after diversification	--	38,004.9	--	46,762.1	116.4

Table 4

Bendigo and Adelaide Bank Ltd.--Risk-adjusted capital framework data (cont.)

	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio before adjustments	5,104.7	13.4	5,777.0	14.4
Capital ratio after adjustments‡	5,104.7	13.4	5,777.0	12.4

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of 'June. 30 2024', S&P Global Ratings.

Table 5

Bendigo and Adelaide Bank Ltd.--Risk position

	--Fiscal year ended June 30--				
(%)	2024	2023	2022	2021	2020
Growth in customer loans	2.6	1.2	7.8	10.6	5.2
Total managed assets/adjusted common equity (x)	19.7	20.3	20.2	18.8	18.0
New loan loss provisions/average customer loans	0.0	0.0	(0.0)	0.0	0.3
Net charge-offs/average customer loans	0.0	0.0	0.0	0.0	0.2
Gross nonperforming assets/customer loans + other real estate owned	0.5	0.6	0.6	0.8	1.1
Loan loss reserves/gross nonperforming assets	67.3	62.5	65.4	55.9	46.1

Table 6

Bendigo and Adelaide Bank Ltd.--Funding and liquidity

	--Fiscal year ended June 30--				
(%)	2024	2023	2022	2021	2020
Core deposits/funding base	80.6	78.4	78.5	73.4	73.8
Customer loans (net)/customer deposits	112.0	111.3	113.5	124.2	128.1
Long-term funding ratio	86.2	83.8	86.7	80.2	81.0
Stable funding ratio	97.3	97.5	99.5	90.2	87.9
Short-term wholesale funding/funding base	14.7	17.3	14.2	21.2	20.4
Regulatory net stable funding ratio	116.4	121.5	129.2	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	0.9	0.9	1.0	0.6	0.4
Broad liquid assets/total assets	12.2	14.5	13.1	11.4	8.3
Broad liquid assets/customer deposits	16.7	20.3	18.2	17.0	12.5
Net broad liquid assets/short-term customer deposits	(1.7)	(1.9)	0.2	(13.7)	(16.4)
Regulatory liquidity coverage ratio (LCR) (%)	137.8	136.6	142.2	N/A	N/A
Short-term wholesale funding/total wholesale funding	72.4	76.8	63.0	76.9	74.4
Narrow liquid assets/3-month wholesale funding (x)	12.5	10.6	17.9	44.0	24.4

N/A--Not applicable.

Bendigo and Adelaide Bank Ltd.--Rating component scores

Issuer Credit Rating	A-/Stable/A-2
SACP	a-
Anchor	a-

Bendigo and Adelaide Bank Ltd.--Rating component scores (cont.)	
Issuer Credit Rating	**A-/Stable/A-2**
Economic risk	3
Industry risk	2
Business position	Adequate
Capital and earnings	Strong
Risk position	Adequate
Funding	Moderate
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of December 12, 2024)*	
Bendigo and Adelaide Bank Ltd.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Foreign Currency	A-2
Senior Unsecured	A-

Ratings Detail (As Of December 12, 2024)*(cont.)	
Senior Unsecured	A-/A-2
Senior Unsecured	A-2
Subordinated	BBB
Issuer Credit Ratings History	
02-Apr-2024	A-/Stable/A-2
27-Apr-2021	BBB+/Positive/A-2
21-May-2017	BBB+/Stable/A-2
Sovereign Rating	
Australia	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.