



together
we're bigger



» Bendigo and
Adelaide Bank

Interim Review | 2017



A message from the Managing Director

The results for the first half of the 2017 financial year reflect six months of good performance across our businesses.

This last half saw strong lending growth across Retail and Partner channels, which has resulted in the Bank delivering growth above system, despite competition remaining intense.

Interim results snapshot

- > Cash earnings: \$224.7 million, an increase of 0.4 percent on the prior corresponding half year period.
- > Profit after tax: \$209.0 million
- > Interim dividend: 34 cents per share fully franked
- > Interim dividend distribution date: Friday 31 March 2017

Pressure on net interest margin, through two cash rate reductions and holding additional liquidity for the Keystart portfolio acquisition, resulted in a six basis point contraction over the half. However, as the market repriced loans in August and December in response to increased funding costs, our margin recovered, resulting in an exit margin of 2.14 percent.

Solid growth in at call and term deposits sees 80.2 percent of funding provided by retail customers. This is a real strength for the Bank and a testament to the advocacy of customers for our style of banking.

Our focus on making it easier for customers to do business with us has driven efficiency gains over the half. Our cost to income ratio moved down to 54.3 percent, and the investment we have made in continuous improvement and new technology will continue to provide a material contribution to efficiency gains.

We are well capitalised for the risk we write, with total capital at 12.20 percent. This is validated by S&P's risk adjusted capital ratio analysis which shows the Bank has a like for like market leading capital position in the industry. To ensure this remains the case and to help support growth in the second half, we've increased the discount on the Dividend Reinvestment Plan.

Our progress towards Advanced Accreditation continues, and this significant investment has already improved our risk management capability and how we serve our customers. The frameworks and models we have developed are in use in our business, providing us with greater insights into our credit and other business risks.

We know this important step will mean our Bank can operate on a level playing field with major banks, something we haven't been able to do for some time.

This half year result shows the Bank's unique and valued proposition for customers and communities, driven by a clear vision of being Australia's most customer connected bank, is valued by Australian consumers and businesses.

We provide a premium value proposition that resonates well, and we have the highest advocacy in the industry. We're number one in Forrester's Australian Customer Experience Index across all industries and, out of all banks' customers, our customers are most likely to recommend their Bank according to Roy Morgan research.

Our **Community Bank**[®] model continues to deliver tangible benefits for many communities and our business, with 9 percent balance sheet growth in this half. With about \$165 million in funding returned to Australian communities since 1998 – and about \$16.5 million returned in the last financial year – the economic impact of these dollars will support the sustainability of communities for the long-term.

Our customer focus is being repaid with customer advocacy and, importantly, growing levels of business. This has resulted in a strong funding and balance sheet position with profitability at good levels.

I would like to thank our customers, staff and other stakeholders for their contribution to our business.



Mike Hirst
Managing Director,
Bendigo and Adelaide Bank.



 **Bendigo** and
Adelaide Bank

Investing in Australian youth

The Bank's work with universities and Australian youth continues to improve outcomes for young people and their communities.

We do this through our scholarship program, which recognises the need for financially disadvantaged yet academically outstanding regional students to have the opportunity to access tertiary education.

This year, more than 92 students have received financial support under Bendigo and Adelaide Bank's Scholarship Program.

Taking into account the second and third year students who were also awarded continuing scholarships, more than 194 young people from across Australia shared in more than \$1 million in funding to help meet the costs of tertiary study.

The entire program exceeds 552 students and \$6.2 million in funding since 2007, and whose partners include **Community Bank**[®] boards, Rural Bank, Community Sector Banking, La Trobe University and University of Melbourne.

The Bank also welcomed 9 graduates to its 2017 Graduate Program, who joined 10 inducted into the 2016 program, with 36 graduates completing the two year program since it launched in 2014.

The program provides university graduates the experience of working in the financial services sector, gaining skills across a range of divisions that complement their field of study.

In January 2017, Eaglehawk student, Meghan Frederick, received one of the latest Australian Business Community Network (ABCN) Foundation Scholarships.

Passionate about science since a young age, the Year 11 student has her sights set on a career in medicine or scientific research, and is now one step closer thanks to the assistance of the Bendigo and Adelaide Bank-supported scholarship, which assists exceptional students facing economic, family or social challenges to achieve their dreams.

Among 21 students Australia-wide to be awarded the scholarship, Meghan will receive \$7,000 over Years 11 and 12 and in the first year of her tertiary education to assist in the purchase of study resources and help alleviate the financial strain of further education.

A female leader in the making, Meghan will also receive mentoring as part of her scholarship from one of banking and agriculture's top women leaders, Rural Bank CEO, Alexandra Gartmann, to build confidence and help make positive life choices.

Bendigo and Adelaide Bank has actively supported ABCN in both South Australia and Victoria since 2013, through various mentoring programs and most recently, the ABCN Foundation scholarship program.

Image: ABCN scholarship recipient, Meghan Frederick, and Rural Bank CEO, Alexandra Gartmann.

Industry changes announced to make banking better

Beginning in January, the Australian Bankers' Association (ABA) and Australia's leading banks, including Bendigo and Adelaide Bank, launched a series of new initiatives to deliver better products and services to customers.

The Better Banking program focuses on strengthening banks' cultural and ethical standards and responding to what our customers want. The program follows extensive research into what consumers like and don't like about banks, and what the industry can do to make it better for customers.

Managing Director Mike Hirst said the Bank has worked with the ABA and industry to develop initiatives that address consumer concerns relating to conduct and culture in the sector.

"We recognise the importance of the community's trust in their banks and we're pleased to be part of this industry-wide initiative," Mr Hirst said.

"The proposed initiatives are largely consistent with the way our Bank already operates.

"For example, we changed our remuneration practices for our financial planning business more than a decade ago by moving our financial planners away from receiving commissions to a salary structure, and we do not pay staff commission on product sales.

"We did this because we believe that volume based remuneration is inconsistent with good customer outcomes.

"In addition, our Bank already has an independent whistleblower framework.

"We support the industry funding model for ASIC and we believe that a user pays system should contain incentives for doing the right thing.

"We are confident in our company's culture, conduct and practices, but we know that there is always room to provide even better service and support to our 1.6 million customers, and we are firmly committed to making it easier for our customers to do business with us.

"Our Bank's vision, strategy and purpose will continue to guide us, and our industry leading reputation and consistently high customer advocacy ranking is testament to our strong, customer focussed culture and values.

"We are Australia's most trusted bank and we reaffirm our commitment to these measures for the long term benefit of all of our stakeholders."

Awards boost exceptional product offering

Our commitment to being Australia's most customer connected Bank is measured in a number of ways, including the awards we receive for outstanding products and customer service.

In 2016 we received multiple accolades, which reflect the consistent and outstanding value we continue to deliver to our customers.

- Bendigo Community Saver Account awarded first place for the Most Innovative Retail Banking Product of the Year in the 2016 Australian Retail Banking Awards.
- The Bank took out Best Property Fixed Interest Investment Loan at the Financial Review Smart Investor Blue Ribbon Awards 2016, awarded for the Bendigo Bank Connect Package. Adelaide Bank SmartFix was also highly commended in the same category, and Leveraged was highly commended in the Best Margin Loan category.
- CANSTAR'S Superannuation Star Ratings Report awarded Bendigo Bank's SmartStart Super® a 5 star rating for the fourth year.
- Money Magazine's 2016 Best of the Best Awards for Best-Value Mobile Plan – Average Usage, was won by Bendigo Bank Telco, for its 4G Lite plan.

"The CANSTAR 5-star rating for the fourth year running reflects the consistent and outstanding value delivered to Bendigo SmartStart Super customers".

Paul Rohan, CEO, Sandhurst Trustees

New apps make purchases simple and secure

In August 2016, we became one of the first banks to offer Android Pay in Australia, with customers now able to make purchases on their smartphones simply and securely.

The mobile wallet is now available to all Bendigo Bank credit and debit card holders with an Android smartphone, simply by downloading the Android Pay app from Google Play, offering customers greater choice and flexibility in how they could make payments.

For a quick card registration process, Bendigo Bank customers are also encouraged to download the Bank's new Protect+Pay app, available on Google Play.

Protect+Pay gives customers greater control over security features for their credit and debit cards. This means even more convenience in managing your financial life, all from the palm of your hand.

Australian-first University **Community Bank**®

In September 2016, the Bank expanded its **Community Bank**® model, collaborating with Deakin University to create Deakin University **Community Bank**® – an Australian first.

The unique banking service will return profits to the university community for programs, capital projects and more.

The celebrations began with the gifting of funds to some early projects across the university – including the construction of a new edible garden at the Burwood campus, and support for a student health and wellbeing day.

Managing Director, Mike Hirst, said the expansion of **Community Bank**® model into a university recognised that community wasn't just bound by geography – a town or a suburb – but was also created through shared interests and objectives.

"The new model is the culmination of a long engagement with the Deakin community about the value they see in a community banking service and how it could support their goals.

"What we heard overwhelmingly was that they see this as a win-win, a true example of shared value.

"It means that for staff, students and alumni, just by doing their everyday banking with Bendigo Bank through the Deakin University **Community Bank**®, they can contribute to supporting projects that matter to them and their university."

Supported by the cashless Customer Hub at Deakin's Burwood campus, as well as online account opening and e-banking, and through the Bank's wider branch network – staff, students, alumni and the partners are already showing their support for this unique initiative.

Since opening, around 100 new home loans have been settled, and business on the books is sitting at more than \$46 million across 1,290 accounts.

"What is even more exciting, is that we see this as just the first step in a long journey of collaborative projects that will benefit Deakin University for decades to come," Mr Hirst said.



*Image: Chairman, Robert Johanson, and Deakin University Vice-Chancellor, Jane den Hollander cut the ribbon to the new Deakin University **Community Bank**® Branch opening.*



Bendigo Bank's mascot Piggy, and Executive Local Connection, Alexandra Tullio celebrate the opening of the Sheffield and Railton Districts **Community Bank**[®] Branch in Tasmania on Thursday 1 December 2016.

Sharing profits with Australian communities

The Bank's **Community Bank**[®] model continues to play an active role in building sustainable and resilient communities, with about \$16.5 million returned to local communities in 2016.

To date, the 313 locally owned **Community Bank**[®] branches have collectively reinvested more than \$165 million of their profits into local projects deemed important by local people.

Community Bank[®] branches can be found in suburbs and rural and regional centres across the country, as communities choose to take back control of the profits generated from their banking business.

Local **Community Bank**[®] branches do far more than provide banking services. They create an additional source of income communities can use to fund the initiatives and activities they choose.

Appeal supports flood-affected communities

Recording-breaking rains caused widespread flooding in much of the North and North-West of Tasmania in June 2016. The speed and severity of the floods tragically resulted in loss of life and devastation to large numbers of families, businesses, farmers and local communities.

To pledge our support in the rebuilding of these communities, the Bank partnered with the Tasmanian **Community Bank**[®] network, Rural Bank and The Salvation Army to launch the Tasmanian Flood Appeal.

The appeal raised more than \$50,000, including donations of \$20,000 from Tasmania's **Community Bank**[®] branches, \$5,000 from Rural Bank and \$20,000 from Bendigo Bank.

Our communities are important to us and we continue to act in ways that support them when they need it most.

Acquisition demonstrates commitment to Western Australia

The purchase of approximately \$1.35 billion of standard residential home loans from Keystart Housing Scheme Trust was formalised with the Western Australian State Government in August 2016.

The acquisition complements our existing business in Western Australia and improves our geographic diversification by increasing the proportion of our loan book in Western Australia from approximately 11 to 13 percent.

Since then, the Bank has been working closely with Keystart to build a complementary banking package for their 6,000 customers.

The offer is designed to reflect our award winning Bendigo Connect Home Loan package, which provides real savings on selected Bendigo Bank products to Keystart home loan customers.

Bendigo and Adelaide Bank Managing Director Mike Hirst said that the values of Keystart and the Bank are very much aligned, particularly in relation to providing tangible benefits to the local communities in which we operate.

"We are looking forward to developing a long term relationship with Keystart and its customers."

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