Bendigo and Adelaide Bank Full Year 2020 Financial Result

17 August 2020: Bendigo and Adelaide Bank **(ASX: BEN**), Australia's fifth-largest retail bank, today announced its results for the full year ending 30 June 2020.

- **Statutory net profit:** $192.8 million, down 48.8 percent[1]
- **Cash earnings after tax:** $301.7 million, down 27.4 percent[1]
- **Net interest margin:** 2.33 percent, down 3 basis points[1] (bps)
- **Total income on a cash basis:** $1.61 billion, up 0.9 percent[1]
- **Bad and doubtful debts:** $168.5 million, influenced strongly by COVID-19 collective provision of $127.7 million[1]
- **CET 1:** 9.25 percent, up 33 bps[1]
- **Cash earnings per share:** 59.7 cents per share (cps), down 29.8 percent[1]
- **Final dividend:** Dividend decision deferred
- **Total lending:** $65.3 billion, up 5.1 percent[1], with residential lending 3.6x system, at 9.4 percent[2]
- **Total deposits:** $67.7 billion, up 5.7 percent[1], with customer deposits up 6.0 percent[1]

Marnie Baker, Managing Director and CEO, said, "In a challenging year for Australia and the world, our priority has been to support those impacted by COVID-19, bushfires, floods and prolonged drought through a range of tailored measures in line with our longstanding purpose to feed into prosperity, not off it.

"Last year, we announced our multi-year strategy to reduce complexity, invest in capability and tell our story to reshape our business for the future and deliver our vision. We know we must constantly evolve because our customers' needs and the environment continue to change. Whilst the events of 2020 haven't changed our strategy, the ongoing economic uncertainty has accelerated our need to transform.

"Our full year result has been impacted by COVID-19, record low interest rates and investment costs required to support the delivery of our strategy. Full year cash earnings were down 27.4 percent year on year (down 2.8 percent excluding notable COVID-19 impacts[3]). Despite this, we delivered total income of $1.61 billion, up 0.9 percent on the prior corresponding period, sustained market leading trust ratings above system lending growth, and further strengthened our balance sheet.

"We also continued our significant customer growth for another successive year, with our total number of customers increasing 9.9 percent to a record 1.88 million customers. This growth came whilst achieving a net promotor score of 32.1, which is 33.1 higher than the industry average and 35.6 higher than the average of the major banks[4] - a score we've consistently earned."

Key metrics

"We have demonstrated success by growing in key priority markets, supported by our investment strategy. This has resulted in additional staff costs to support above system lending growth. Looking ahead, we are accelerating the transformation of our cost base by investing in automation initiatives and new capability to improve operational efficiency, customer outcomes and experience. As we continue to adapt to the changing environment, our enduring purpose - to feed into prosperity - is central to our strategy."

Total lending, at record levels, increased 5.1 percent[1] on the prior corresponding period, and above system to $65.3 billion. Strong residential lending growth continued at 9.4 percent[2], 3.6 times system, due to focused customer strategies.

“Our Consumer Banking division continued to outperform system with strong growth in residential lending ($3.1bn), underpinned by our strategy and driven by investment in lending distribution and processing capacity. We saw increased refinancing activity as customers moved to our Bank and we continued to transform our service proposition and ability to meet demand. Lending applications increased 50.3 percent and settlements 18 percent on the prior corresponding period[5]. The division also recorded $3.9 billion growth in call deposits, allowing active management of more expensive term deposit funding.”

Agribusiness lending was up 1.3 percent[2] despite a challenging year for Australian agriculture from the ongoing multi-year drought and the Black Summer bushfires. Loan book growth, combined with strong margin management, positively impacted net interest income. The Agribusiness division also saw higher revenue from its Government Services business.

The Bank’s relationship banking model supported business customers with tailored assistance to help manage through the pandemic. Business lending was down 6.7 percent[2] year on year, but grew in 2H20, which included growth from the Commercial Property Lending portfolio in the later months, following its rebalancing to within targeted risk appetite settings.

“Net interest margin decreased three basis points on the prior corresponding period to 2.33 percent, reflecting active management of pricing and volume for lending and deposits, despite the interest rate environment. Further RBA rate cuts reduced customer deposit pricing which was positively offset by variable loan repricing. The Bank’s lending portfolio rate continues to drive lower due to competitive, new business rates.

“Common Equity Tier 1 improved by 33 basis points to 9.25 percent on the prior corresponding period above APRA’s ‘unquestionably strong’ benchmark. Our continued strong capital position reflects a well-managed balance sheet and in-depth risk management.

“Our bad and doubtful debts of $168.5 million were significantly influenced by the COVID-19 provision of $127.7 million. Excluding the COVID-19 collective provision overlay, bad and doubtful debts comprised 8bps of gross loans, with the overlay contributing a further 18bps. The number of large impaired loans resolved in the second half has reduced specific provisions and total impaired assets.”

Business highlights

“We continue to build new capability and sustainably accelerate our investment in digital and customer experience, delivering above system lending and consistent customer growth. These results underline the validity of our strategy and transformation agenda and illustrate the agility of our employees and business to adapt quickly to this year’s disruptive events for our customers and their communities.

“We consistently rank in Australia’s top 10 most trusted brands - improving one place in April during Australia’s first restrictions - and amongst the top-rated companies for customer experience. Our distinctive strengths - a deep human and community connection grounded in purpose, partnering capability and high trust - continue to provide customer value and growth opportunities for our Bank.

“Our strategy has resulted in an ongoing trend of the average age our customers’ decreasing. The average age of new customers remains more than 10 years younger than our broader customer base, and customers aged 39 or younger increased 11 percent in the year. Small business customer numbers also grew four percent demonstrating the strength of our relationship model.

“The success of our fintech partnerships with Ferocia and Tic:Toc were further strengthened this year. Up, Australia’s highest rated banking application and first mobile only digital bank to launch in Australia, more than doubled its customer numbers to over 250,000. Tic:Toc sustained further growth of 120 percent year on year with cumulative home loan approvals now at more than $1.22 billion."

Modernisation of the Bank's physical distribution network continued with new community-focused experience stores launching in Carlton, Victoria; Leichhardt NSW; and Coffs Harbour, NSW; and an increase in mobile relationship managers to support business and consumer customers seeking convenient, personal banking expertise.

"Branches remain a critical part of our distribution strategy, today and into the future, providing a significant source of stable customer deposits and community connection, however their size, look and feel will change over time. At the same time, we'll continue to invest where our customers expect a leading service."

To reduce complexity, invest in capability and tell its story in FY20, the Bank:

- Reduced business model complexity
- Rationalised products and applications: reducing applications by 12 percent and removing 95 products from its systems through the launch of the 'Bendigo Complete Home Loan'
- Restructured divisional functions, removing management layers
- Launched remote customer digital servicing offerings
- Automated and reduced human input in business customer processes

"As an essential service we continue to play a very important part in helping the economic recovery, whilst supporting our customers and their communities throughout the pandemic. More than 90 percent of our corporate employees have been working remotely since mid-March and the majority of our branch network has remained open to service customers. We also deployed a significant number of staff to our call centre and mortgage help teams to support increased customer assistance. The way our team has adapted is a testament to our culture - and is something we are very proud of."

More than 25,000 personal and business accounts have been provided with support to help customers manage the impacts of COVID-19. The Bank is committed to ensuring tailored arrangements are agreed with customers prior to their COVID-19 deferral period ending. Where customers cannot resume making repayments at the amount previously required, alternative and individual arrangements to restructure their loan will be worked through.

The Bank also continues to proactively support drought and bushfire affected communities with dedicated assistance. Additionally, the Bank's national bushfire appeal raised more than $46 million.

Accelerating business transformation

"Sustainable investment in key transformation initiatives continued to support our strategy to drive a consistent customer experience across all channels and future business efficiencies.

"As we further grow our core markets, we continue to apply investment flexibly to our transformation program to align with revenue growth. Our future investments will focus on removing cost and complexity and creating a seamless banking experience for our customers. The investments will focus on initiatives such as core banking simplification, Open Banking, extended cloud capability, application simplification and digitising our customer experience as we continue to reshape our business," said Ms Baker.

Dividend

Jacqueline Hey, Chair, said, "Whilst economic uncertainty remains and the full impact of COVID-19 is still evolving, the Board has acted prudently in considering the interests of shareholders and APRA's industry guidance on capital management, to defer a final dividend decision. Ongoing stress testing continues to support the Bank's strong balance sheet and capital position."

Operating expenses

Operating expenses were $1.02 billion, up 7.0 percent on the prior corresponding period. This included technology investment spend of $52.4 million in line with the Bank's strategic imperatives, including consultancy fees for transformation, core banking systems and digital platform investment, the introduction of Open Banking and application simplification. Excluding investment costs, operating expenses were up 1.5 percent for the year.

The Bank's cost to income ratio was 62.7 percent, up 350 basis points on the prior corresponding period. This was attributable to transformation investment, staff costs to support the Bank's strategy - including redundancies ($10.8 million) - and COVID-19 impacts.

Ms Baker said, "Our commitment to be Australia's bank of choice remains as we increase the intensity in our cost reduction programs to target a sustainable cost to income ratio towards 50 percent in the medium term. This will see continued flexibility around our accelerated transformation to align with revenue growth, and an ongoing focus to simplify our business."

Outlook

"We expect market conditions to remain challenging and because of this we are unable to provide meaningful guidance for FY21. We continue to focus on maintaining a strong and resilient balance sheet supported by our growth and clear transformation strategy.

"We're observing how COVID-19 is changing the world and considering how we can use this to shape the future of work and continuously improve as leaders in customer experience.

"We will make lasting changes into the future, to continue to feed into customer and community prosperity. This will see us increase productivity by taking out costs, and investing in new capabilities, particularly in customer experience and digitisation. These changes will impact our operations and improve how we engage customers. Regardless of any change, our purpose, values, strategy, and customer commitment will remain at the centre of every decision.

"Our advantages in partnerships, community and customer connection and innovation are critical in today's new environment, and when combined with our strategy to further differentiate in digital, they become even more important, positioning us well for success.

"As Australia's most trusted bank, supporting customers for more than 162 years, we bring proven capability to adapt over time. We will continue to act with integrity and with customers and communities at the centre as we progress our vision to be Australia's bank of choice," concluded Ms Baker.

Full Year Result webcast

The full results presentation will be held on Monday 17 August at 10:00am AEST. Click here to watch the live 2020 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

1 All results relate to the full year ended 30 June 2020, with all comparisons against "prior corresponding period". The term "prior corresponding period" refers to the full year ended 30 June 2019.

2. APRA Monthly Banking Statistics June 2020. Growth rate based on a 12-month period (30/06/19 – 30/06/20).

3. Indicative of notable items related to COVID-19 and doesn't capture all impacts.
4. Roy Morgan Net Promoter Score – 6 month rolling averages. 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. In Third Party Banking and Retail divisions.

Appendix: Reconciliation

	FY20 ($m)	FY19 ($m)
Statutory Profit after tax	**$192.8**	**$376.8**
Fair value adjustments	**$0.1**	**$0.3**
Homesafe unrealised adjustments	**($16.4)**	**$29.5**
Hedging revaluation	**$2.2**	**($7.4)**
Loss on sale of business	**-**	**$1.6**
Impairment charge	**$2.8**	**-**
Software impairment	**$85.5**	**$0.5**
Operating expenses[2]	**$21.5**	**$1.9**
Amortisation of intangibles	**$2.2**	**$2.6**
Cash earnings after tax (subtotal)[1]	**$290.7**	**$405.8**
Homesafe net realised income after tax	**$11.0**	**$9.9**
Cash earnings after tax	**$301.7**	**$415.7**

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 7,400 staff helping our 1.9 million customers 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.