Bendigo and Adelaide Bank 2023 Interim Financial Result

20 February 2023: Bendigo and Adelaide Bank (ASX: BEN), Australia's most trusted bank, today announced its results for the half year ending 31 December 2022. All comparatives refer to 2H22 results unless otherwise stated**.**

» **Statutory net profit:** $249.0 million, up 49.3 percent

» **Cash earnings after tax:** $294.7 million, up 22.9 percent

» **Net interest margin:** 1.88 percent, up 19 basis points

» **Total income on a cash basis:** $958.2 million, up 14.5 percent

» **Credit expenses:** $5.6 million vs net writeback of $9.4m

» **Cost to income ratio:** 54.6 percent, an improvement of 500 basis points

» **CET1:** 10.13 percent, up 45 basis points

» **Cash earnings per share:** 52.2c, up 22.2 percent

» **Fully Franked Dividend:** 29 cents per share, up 9.4 percent[1]

» **Total lending:** $77.0 billion, down 1.1 percent

» **Residential lending:** 1.0x system on a rolling 12-month basis

» **Total deposits:** $76.5 billion, up 2.5 percent

» **Total funding:** $88.9 billion up 1.5 percent, with customer deposits representing 73.9 percent of total funding

Marnie Baker, CEO and Managing Director said:

"This is a strong result that has been made possible by disciplined execution across the business. Bendigo and Adelaide Bank has delivered on all key metrics with cash earnings, return on equity and capital ratios all improving over the half."

"We have delivered strong income growth and managed our costs prudently. We have continued to deliver on our transformation agenda, made significant progress on our goal of a cost-to-income ratio of towards 50 per cent and grown our customer base, while maintaining a strong balance sheet and preserving our credit quality.

"We are Australia's most trusted bank with market leading customer advocacy and satisfaction scores. Our customer numbers are growing because customers are attracted to our products, digital capability, service levels and our longstanding purpose of feeding into the prosperity of the community.

Total income for the half year to 31 December 2022 rose 14.5 percent to $958.2 million on the prior half while operating expenses rose 4.9 percent to $523.2 million. Compared to the prior comparative period, expenses rose just 1.1 percent.

Cash earnings were up 22.9 per cent to $294.7 million reflecting our disciplined approach to volume and margin management. Statutory net profit rose 49.3 percent to $249.0 million, with the difference driven by a revaluation of the Homesafe portfolio, restructuring charges and amortisation of acquired intangibles.

"At the full year result I spoke of our strengthened focus on returns, execution and sustainability. To the first focus area, through careful management of volumes and margins and prudent cost management we have delivered a 145-basis point increase in our ROE and a 500-basis point improvement in our cost to income ratio."

"To the second focus area, we delivered several important digital milestones over the half. Our digital bank Up has continued to drive growth with 613,000 customers and over $1.3 billion in deposits at the end of the half. Its flagship lending product Up Home was soft launched and settled $38 million in home loans. Our digital home loan product BEN Express reached $100 million in lending during the half with continued strong levels of enquiry expected. Pleasingly, more than 80 percent of Up Home and BEN Express customers are new to bank.

“The final area of focus is sustainability. We are committed to achieving good outcomes for all our stakeholders: by delivering quality products and service levels to customers; by feeding into the prosperity of our customers and communities and not off them; by protecting and growing shareholder value for our investors; and, by investing in the capability of employees and rewarding them appropriately.

“Our business must also be sustainable. Residential lending is growing at system on a rolling 12-month basis[2]. Over the half it has tapered as we managed the trade-off between volumes and margins. We are competing selectively and seeking opportunities that deliver appropriate returns for our business and its shareholders.”

“We also recognise the very real challenges some people are facing given the increased cost of living pressures driven by inflation and increasing interest rates. Our bank has a strong 164 year track record in supporting our customers dealing with natural disasters, pandemics and economic uncertainty.”

“We will continue to be there, to support our customers when they need us, as we have always done.“

Key metrics

“Customer numbers rose 5 percent over the half to 2.3 million. Our leading Net Promoter Score[3] of 23.8 is now 28.2 points above the industry average, with the gap widening over the half. The number of customers that choose to bank with us continues to grow because they are attracted to our products, service levels, digital capabilities and our unique purpose.”

Cash earnings for the Consumer Banking Division rose 44.8 percent to $345.8 million. Residential lending has slowed, reflecting our relative positioning and the heightened level of cashback offers from most market participants. We have repriced our deposit book to ensure savers are rewarded appropriately in an increasingly competitive market. Our margins have improved and we have put measures in place to restore lending momentum.

Cash earnings for Business and Agribusiness rose 12.5 percent to $155.4 million under its refreshed leadership team. Lending in the division has experienced some contraction due to continued competitive pressures and higher amortisation from the maturing portfolio. We are focused on streamlining systems and processes across the division and continue to position ourselves for growth.

“Net Interest Margin rose 19 basis points on the previous half and 8 basis points on the prior corresponding period. The uplift reflects the positive impact of rising rates and our active management of margin and volume for lending and deposits.”

“Our Common Equity Tier 1 – a key measure of financial strength – rose 45 basis points to 10.13 percent and well above the prudential regulator’s definition of ‘unquestionably strong’. Our strong capital position reflects our stable balance sheet and prudent approach to capital management.”

“Credit expenses rose from a net writeback of $9.4m in 2H22 to a $5.6 million charge in 1H23 – mainly reflecting an additional overlay booked into the collective provision – and remain at historical lows. Impaired loans were down 2 basis points to 0.15 percent of gross loans and residential loans in arrears of 90 days or more are 8 basis points lower at 0.41 percent.”

“The Board has declared a fully franked dividend of 29.0 cents per share, an increase of 9.4 percent on the prior half. A DRP (Dividend Reinvestment Plan) has also been announced. With APRA’s approval the Board intends to neutralise the impact of the DRP by arranging for a third party to purchase the shares on market rather than issue additional shares.

“These decisions support our strong capital position and our business outlook, including our expectation of residential lending growth at or above system over the long term, while balancing our commitment to support our shareholders with a reasonable return on their investment.”

Business highlights

“The strong result you see today owes much to our strengthened focus on profitable growth. I would like to thank each and every member of our team who works hard every day to provide great outcomes for our customers and investors, while ensuring we continue to deliver on our strategy and our purpose.”

“Over the half we have delivered a 145-basis point increase in our Return on Equity to 8.79 percent and a 500 basis point improvement in our Cost to Income ratio to 54.6 percent, in line with our medium-term objective of towards 50 percent.

“Our transformation agenda is on track with the foundational work we have completed paving the way for an acceleration in our progress. We have reduced our time to decision on home loans improving the experience for our customers, we have fewer IT applications, we have increased the number of applications in the cloud and have more e-Banking customers, with the proportion of active customers rising to 70.1 percent from 68 percent over the half.

“Digital channels accounted for 8.9 per cent of settled home loans. Over the half we completed the full integration of Delphi Bank. We were among the first banks to launch PayTo, a modern alternative to direct debit and have improved our customer analytics using Google’s AI powered platform.

“We continue to make good progress on our ESG agenda with the launch of our pathway to net zero by 2040, provisional endorsement of our Reflect Reconciliation Action Plan from Reconciliation Australia and the incorporation of ESG responsibilities into our Board and Board sub-committee charters.”

Operating expenses

“Operating expenses were up just 1.1 percent on the prior corresponding period to $523.2 million as we managed expenses carefully in a high inflation environment. Over the prior half, operating expenses were up 4.9 percent.”

“This increase can largely be attributed to a higher level of expensed investment spend as we ramped up investment in our transformation program. Excluding investment spending our business as usual (BAU) costs were up 1.1 percent on the prior half.

“We are continuing to invest in our digital business Ferocia, our digital brand Up and our Connect platforms as we respond to changing customer preferences and position ourselves for the future.”

Outlook

“We expect interest rates to peak or plateau in 2023 however the longer-term trend will not be decided until inflation returns to within the RBA’s target range. While credit expenses are benign, they are likely to come under pressure as the tightening cycle continues and move closer toward historical averages for the Bank, which are low by industry standards.”

“Borrowers remain well positioned with 43 percent at least one year ahead on repayments and 33 percent two years ahead on repayments. We have seen very little deterioration in these numbers with 84 per cent of home loan customers maintaining a financial buffer.

“At this point in the interest rate cycle, it is reasonable to expect house prices to continue to moderate, which in turn, will lead to lower system credit growth.

“We are seeing a continued contest for market share play out, primarily amongst the big four banks, using incentives in the form of cash back offers for housing loans. Our unique Community Bank model has proven its strong retail deposit gathering capability with the network of 302 branches contributing approximately $10 billion in net funding.

“Our business is well positioned to perform in this environment and we are targeting growth at or better than system whilst generating appropriate returns on equity. We will continue to take opportunities when we see them, supported by our ongoing focus on margins and volume management, while preparing for and meeting challenges as they arise.

“This includes the natural disasters which have devastated communities around Australia in recent times. We continue to support customers affected by natural disasters because we recognise that recovery is a marathon, not a sprint. We stand ready to support our customers when they need help.

“Our work on cyber and information security are among our top priorities and we remain on high alert, looking for new ways to detect and neutralise threats to customer safety. We continue to invest in our capabilities and work closely with industry bodies, cyber security agencies and intelligence services.

“We expect the accelerated pace of change from the last few years to continue. Customer expectations will continue to grow and competition will intensify. We are confident we can succeed in this environment because our multi-channel strategy combined with our customer value proposition, trust scores and market leading NPS provide us with a competitive edge.

“Importantly our portfolios remain well positioned, underpinned by strong sources of funding and capital levels.”

"Finally, we remain committed to our focus to deliver better returns to shareholders and execute on our objectives, while continuing to support our customers and evolve our business for the future."

Approved for release by: The Bendigo and Adelaide Bank Board of Directors

Interim result webcast

The results presentation webcast will be held today, Monday 20 February 2023 at 10.00am AEDT. Click here to watch the webcast live. A replay of the webcast will be made available at the Bendigo and Adelaide Bank website at www.bendigoadelaide.com.au from 2.00pm AEDT.

Media enquiries

James Frost, Head of Public Relations
m 0419 867 219
e james.frost@bendigoadelaide.com.au

Investor enquiries

Alex Hartley, Acting Head of Investor Relations
m 0478 435 218
e alex.hartley@bendigoadelaide.com.au

About Bendigo and Adelaide Bank Limited
Bendigo and Adelaide Bank is Australia's better big bank, with around 7,000 staff helping our more than 2.3 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.

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[1] Ex-dividend date for the FY23 interim dividend of 29c is 6 March 2023, record date is 7 March 2023, and the dividend payment date is 31 March 2023.

[2] APRA Monthly Banking Statistics 2022. Data is an annualised growth rate based on a 12-month period (01/01/22-31/12/22).

[3] Roy Morgan Net Promoter Score – Roy Morgan Research, 6 month rolling averages, comparing BEN to the industry average. Industry includes: ANZ, BOM, BOQ, Bank SA, Bankwest, CBA, ING, NAB, St. George, Suncorp & WBC. 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.