

ASX Announcement

FY23 Financial Results

For the Full Year ended 30 June 2023

14 August 2023



Strong returns from disciplined execution and our differentiated approach.

Key metrics (comparisons to prior year unless otherwise stated)

- **Statutory net profit after tax:** \$497.0 million up 1.8 percent
- **Cash earnings after tax:** \$576.9 million up 15.3 percent
- **Net interest margin:** 1.94% up 20 basis points
- **Total income on a cash basis:** \$1,932.8 million up 14 percent
- **Credit expenses:** \$33.6 million vs net writeback of \$27.2 million
- **Return on equity:** 8.62 percent up 90 basis points
- **Common Equity Tier 1:** 11.25 percent, up 157 basis points
- **Cash earnings per share:** 102.1 up 13.7 percent
- **Dividend per share:** 61c, up 15.1 percent
- **Cost to income:** 54.9 percent, an improvement of 420 basis points
- **Total lending:** \$78.7 billion up 1.2 percent
- **Customer deposits:** \$66.1 billion up 2.8 percent
- **Customer growth:** 2.4 million up 9.9 percent
- **Australia's most trusted bank**
- **Net promoter score:** 28.4 above industry average
- **Leading Reptrak reputation score of 75.1**
- **Community Bank contributions:** \$329 million
- **Scope 1 & 2 emissions:** Reduced by 43 percent since FY20

Bendigo and Adelaide Bank Limited (**ASX:BEN**) today reported record cash earnings for the full year driven by margin management through a disciplined response to lending competition, continued growth in deposits and a measured approach to cost management. The Group's statutory net profit after tax of \$497.0 million was up 1.8 percent impacted by one off software intangible write downs and restructuring costs. The Group's Cash earnings after tax was \$576.9 million up 15.3 percent.

Marnie Baker, CEO and Managing Director, said, "This is another strong result. Our momentum in delivering improvements in shareholder returns continues with our return on equity up 90 basis points to 8.62 percent. This has been achieved through managing our costs and reinvesting back into value enhancing areas of our business. This financial result demonstrates the progress we have made to deliver on our strategy."

"We continue to focus on driving profitable growth with sustainable returns, supported by our unique Community Bank model. Our focus on returns and execution is paying off and can be seen with our prudent approach to competing in key lending markets and the return of lending growth over the last quarter. Our transformation strategy is on track with key milestones reached as we execute on our strategic imperatives of reducing complexity in our business and investing in capabilities to meet the growing and changing expectations of our customers and other stakeholders.

"Our customer numbers continue to grow. They are attracted to our quality products, award winning service and our digital offerings. Our longstanding purpose of feeding into the prosperity of our customers and their communities resonates deeply with them and can be seen in our market leading customer advocacy and satisfaction scores. We are Australia's most trusted bank."

Total income on a cash basis for the financial year increased by 14 percent to \$1,932.8 million driven by a measured approach to deposit pricing, lending margins and volumes.

"We are digital by design and human when it matters. We interact with our customers when and where they want to, in channels that are convenient for them and efficient for the Bank. The opportunity for us in digital mortgages has never been clearer as customer interest in our digital products continues to grow with this channel now accounting for 12 percent of total settlements for the second half," Ms Baker said.

"At the same time the external environment presents us and our customers with challenges. While we are not seeing material signs of borrower distress, we are ready to support our customers. Our Mortgage Help Centre was established to keep our customers in their homes and remains well placed to deliver on its purpose. Bendigo and Adelaide Bank has seen many cycles in our 165-year history and our commitment to our customers and communities is unwavering."

Key metrics

"Our customer numbers have increased by 99 percent to 2.4 million because we continue to put the customer at the centre of everything we do. We are motivated to meet their expectations and our Net Promoter Score is 28.4 points higher than the industry average, with the gap widening by 2.1 points over the 12 months," Ms Baker said.

Cash earnings for our Consumer division rose 45.9 percent to \$718.2 million as a result of balance sheet growth and prudent margin management. Lending growth was subdued during the first nine months of the financial year as we focused on writing profitable business in the face of intense competition and aggressive and unsustainable home loan pricing. In the final three months of the year we have seen an easing in mortgage competition which has enabled us to grow volumes at appropriate returns. We continue to adjust and improve our deposit offerings to support our lending growth with customer deposits up 2.8 percent over the year.

Cash earnings for our Business and Agribusiness division rose 0.4 percent to \$293.4 million. Over the past 12 months, the division has undergone a strategic review that has identified opportunities that support our focus on sustainable returns. The Bank entered the broker market for Agribusiness banking earlier this year with growth recorded over the last quarter.

The Bank's Net Interest Margin has increased over the second half by 8 basis points to 1.98 percent driven by deposit pricing and the benefits of our replicating portfolio partially offset by a modest increase in the Bank's liquid assets and cost of funding impacts from variable mortgages.

Credit quality remains stable, with a 3.8 percent reduction in impaired assets to \$113.9 million during the half. Credit expenses increased \$22.4 million in the half predominantly due to an increase in specific and collective provisions, with the latter reflecting the potential impact of rising interest rates and a continued conservative approach to the economic outlook.

"Our Cost to Income ratio has improved again, falling 420 basis points during the year to 54.9 percent through a disciplined approach to business-as-usual costs and our work to embed a performance focused culture across the Bank," Ms Baker said.

The Bank's Common Equity Tier 1 ratio has risen 157 basis points over the year to 11.25 percent. Over the half CET1 rose 112 basis points mostly reflecting APRA's new capital reform framework. Capital ratios remain well above regulatory requirements and APRA's definition of 'unquestionably strong'. Our capital position reflects our well managed balance sheet and strong focus on risk management.

The Board has declared a final dividend of 32 cents per share, taking the fully franked full year dividend to 61 cents per share, at the lower end of the dividend payout ratio target range of 60-80 percent of cash earnings. This decision reflects our desire to maintain a strong capital position given the uncertain business outlook.

Business highlights

"These metrics are proof of our progress to become a bigger, better and stronger bank. We have contained business-as-usual costs in an environment of high inflation, we have delivered profitable growth at a time of unsustainable competition for home loans, and we have retained our market leading customer advocacy and satisfaction scores while doing so," Ms Baker said.

Total operating expenses rose by 5.9 percent for the full year. Business-as-usual costs contributed 2.4 percent of this increase, well below inflation. Investment in risk and digital capabilities including our lending transformation program contributed 1.8 percent of the increase. An increase in scams and fraud impacted non-lending losses, contributing 1.7% of the increase.

Credit quality remains sound in home lending, with 90-day plus arrears having increased 5 basis points to 0.46 percent since December 2022. While arrears remain benign at this point in the cycle and our credit expenses are low by industry standards, we are monitoring our portfolio closely and expect arrears to move back to long-term averages for the bank.

“Our continued focus on the community has seen the completion of the Bank’s first Climate Action Plan. Pleasingly the Bank achieved nearly 90 percent of the actions, reduced Scope 1 and 2 operating emissions by 43 percent since 2020, maintained travel emission reductions since 2020 and improved our governance and reporting,” Ms Baker said.

“This year our unique Community Bank model celebrated its 25th anniversary and is on track to return \$320 million in profits to the community since inception. The model, which has attracted \$20.8 billion in loans and \$32.3 billion in deposits, is one of the ways we continue to deliver on our purpose, and we are extremely proud of its success.”

Transformation agenda

“Our transformation agenda is on track with the Bank delivering several significant milestones over the year. We have reduced the number of core banking systems from seven to four, have 90 fewer IT applications and have moved one third of them to the cloud. Meeting customer expectations for an intuitive and seamless digital experience is a key driver of our transformation program,” Ms Baker said.

In 2023, the Bank launched digital term deposits contributing to 2.8 percent growth in customer deposits over the year. Our digital home loan products including Up Home and BEN Express account for 12 percent of settlements in the second half. The proportion of our customers who actively use e-banking has risen from 68 percent to 72 percent over the year as they recognise the convenience and utility of our platforms. We remain committed to the personal interactions our customers value and take pride in having Australia’s most satisfied home loan customers.

“I’m proud of our proven history in executing on our strategic transformation agenda. Since financial year 2019, the Bank has launched a market leading digital offering with Up, halved the number of core banking systems, reduced the number of customer facing brands from 13 to 7, acquired and integrated ANZ’s Margin Lending business, integrated Delphi Bank and reduced complexity right across the business. Our people, who are the key to our success, continue to embrace change with engagement levels steady at 77 percent. I want to thank every member of our team who all work hard to deliver great outcomes for our customers,” Ms Baker said.

“We are four years into our strategy we presented in 2019. We have demonstrated the value of our strategic transformation agenda with our improved returns. Since July 2019 cash earnings per share has improved from 85 cents to 102.1 cents, along with Return on Equity from 7.55 percent to 8.62 percent and our balance sheet remains strong with our CET1 improving from 8.92 percent to 11.25 percent. This demonstrates the Bank’s ability to generate organic capital and address the changing needs of our community.”

Outlook

The Bank expects the official cash rate is close to the peak of the cycle following the recent pause from the Reserve Bank. However inflationary pressures are difficult to extinguish and are not expected to return to the RBA’s target band until 2025. The economy has proven resilient as evidenced by the 50-year lows in unemployment which may extend the length of restrictive interest rate settings.

The Australian economy is likely to outperform its peers and over time we expect unemployment levels to normalise. Economic growth is likely to be modest in financial year 2024 before showing improvement in financial year 2025. Notwithstanding these challenges, we expect the shortage of housing stock and forecast population growth to be supportive of property prices.

“Cost of living pressures will continue to present a challenge to Australian households as they grapple with the fastest pace of monetary policy tightening since 1985. The Bank is ready to support borrowers who experience financial difficulties and has team members from our Mortgage Help Centre standing by,” Ms Baker said.

“While our asset quality remains sound and arrears are at historic lows, we do expect bad debts to trend upwards and move towards longer term averages of 10 to 12 basis points over time. Borrowers remain in good shape with 41 percent of loans at least one year ahead on repayments and 31 percent of loans two years ahead on repayments. Pleasingly, we have seen very little deterioration in these numbers with 84 per cent of home loans maintaining a financial buffer.”

The landscape for fraud and cybercrime continues to evolve. The Bank is working hard to proactively detect and prevent the unauthorised use of customer accounts and offer customers cyber security education and protection. We continue to advocate for a whole of system approach to combatting scams and fraud.

“We continue to be dynamic in response to these conditions and to meet the evolving expectations of our customers. Importantly, the Bank is well positioned to continue performing and delivering for its stakeholders. We take comfort from the quality of our portfolio, underpinned by diversified funding sources and strong capital levels,” Ms Baker said.

The Bank sees ongoing opportunities in digital, both direct and via trusted partners, as we leverage our expertise and trusted brand. The return of rational pricing to the home loan market presents another opportunity for the bank to produce disciplined and profitable growth. We also see opportunities on the horizon for our Business and Agribusiness division.

“We are committed to maintaining our momentum in returns for our shareholders by managing our costs, generating sustainable returns on our assets and leveraging those qualities that make Bendigo and Adelaide Bank unique: our connection with communities, our regional roots and our position as Australia’s most trusted bank,” Ms Baker concluded.

Full year results webcast

The result presentation webcast will be held today, Monday 14 August 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 website www.bendigoadelaide.com.au from 2.00 pm AEDT.

Approved for release by the Bendigo and Adelaide Board of Directors.

Media enquiries

James Frost

Head of Public Relations

0419 867 219

james.frost@bendigoadelaide.com.au

Investor enquiries

Sam Miller

Head of Investor Relations and ESG

0402 426 767

sam.miller@bendigoadelaide.com.au

About Bendigo and Adelaide Bank Limited

Bendigo and Adelaide Bank is Australia’s better big bank, with more than 7,000 staff helping our over 2 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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