

ASX Announcement



Bendigo and Adelaide Bank Interim 2021 Financial Result

15 February 2021: Bendigo and Adelaide Bank (**ASX: BEN**), Australia's fifth-largest retail bank, today announced its results for the half year ending 31 December 2020.

- » **Statutory net profit:** \$243.9 million, up 67.3 percent¹
- » **Cash earnings after tax:** \$219.7 million, up 1.9 percent¹
- » **Net interest margin:** 2.30 percent, down 7 basis points¹ (bps)
- » **Total income on a cash basis:** \$849.0 million, up 3.3 percent¹
- » **Bad and doubtful debts:** \$19.5 million, down 15.9 percent¹
- » **CET 1:** 9.36 percent, up 36 bps¹
- » **Cash earnings per share:** 41.4 cents per share (cps), down 5.5 percent¹
- » **Fully Franked Dividend:** 28 cps², comprising 4.5 cps² relating to the FY20 final dividend and 23.5 cps² relating to the FY21 interim dividend
- » **Dividend Reinvestment Plan with 1.5 percent discount to be fully underwritten**
- » **Total lending:** \$68.3 billion, up 8.6 percent¹
- » **Residential lending:** 3.6x system at 14 percent³
- » **Total deposits:** \$72.3 billion, up 8.5 percent¹, with customer deposits up 12.9 percent¹

Marnie Baker, Managing Director and CEO said, "We are well progressed with our strategy to grow and accelerate our transformation to be Australia's bank of choice. Our strategy - supported by our purpose to feed into prosperity, not off it - and our strong financial position saw us further grow customer numbers and market share in lending and deposits, whilst also reducing costs and simplifying our business.

"We delivered on our growth opportunities and continued to support our customers, communities and all stakeholders, notwithstanding the challenges faced by many Australians and the economy continuing into the half.

"Cash earnings were up 1.9 percent on the prior corresponding period, with statutory net profit up 67.3 percent¹ to \$243.9 million. Total income was \$849.0 million, up 3.3 percent¹, as we continued to deliver well above system lending growth, maintain leading trust ratings, and further strengthen our balance sheet.

"In line with previous halves, the number of customers choosing to bank with us climbed again, increasing 4.3 percent to 1.96 million from 30 June. At the same time, we continued to deliver on our commitment to provide a positive customer experience as demonstrated through a net promoter score³ of 29, which remains much higher than the industry (26.8 points higher) and the average of the major banks (30.7 points higher)."

Key metrics

"In line with our strategy to reduce complexity, invest in capability, and tell our story, we grew in all our key priority markets, which combined with effective cost management to result in positive cash earnings across all divisions.

"This momentum was complemented by very strong customer deposit growth as we moved fast to remove costs and simplified our business for our customers, partners, shareholders and our people. Total lending increased by 9.2 percent over the half against 0.1 system growth³ to \$68.3 billion¹, with residential lending growing 14 percent or 3.6x system³. This was further strengthened by a 26.3 percent increase in applications on the prior half. Our deep connection with our customers and their communities, also resulted in a significant \$5 billion increase in customer deposits since June 2020.

“For the fourth half running, our Consumer division again outperformed the industry, recording strong growth in residential lending at \$3 billion on the prior half. This ongoing strong performance reflects the value customers and our third party partners are placing in our Bank as we continue to invest in the proposition and experience we provide them.”

Positive agricultural conditions supported the strong performance of the Bank’s Agribusiness division, with cash earnings contribution up 25.8 percent and operating expenses down 5.9 percent in the half. This was supported by higher-than-average loan balances for the half, which combined with good margin management to drive a higher net interest income. The division also continued to see higher revenue from its government services business.

The Bank’s relationship model supported a strong half for the Business Banking division with above system growth, increased customer numbers and a continued decline in COVID-19 assistance packages. Cash earnings contribution was up 39.7 percent and operating expenses down 12.9 percent, as customer numbers increased 1.5 percent in the half. Operating expenses were improved through an active focus on cost management, the reduction in disposable assets under management and the integration of Community Sector Banking. Higher net interest income was further supported by strong deposit growth and effective margin management.

“Net interest margin decreased seven basis points on the prior corresponding period and increased one basis point on the prior half to 2.30 percent. This reflects active pricing and volume management for lending and deposits, despite lower lending rates due to a mix of growth and competitive new business rates.

“Our Common Equity Tier 1 improved 36 basis points on the prior corresponding period to 9.36 percent, above APRA’s ‘unquestionably strong’ benchmark. Our consistently strong capital position reflects a well-managed balance sheet and risk management approach, whilst supporting continued lending growth and future transformation investment.

“Our bad and doubtful debts of \$19.5 million, comprised six basis points of gross loans. We reviewed our COVID-19 collective provision overlay at 31 December 2020, resulting in a modest reduction to manage ongoing uncertainty around the future impact of the pandemic. The increase in specific provisions primarily relates to existing impaired loans and reflects limited recovery action and asset sales due to COVID-19.”

Business highlights

“Our results demonstrate the strength of our strategy, business model and ability of our people who moved quickly and acted with care to support our customers and their communities. We also continued to support customers through COVID-19, while playing our important role of providing credit to support the economy. Deferrals significantly reduced from their peak in May, including in Victoria, and our strong capital position ensures we are well positioned to manage through the pandemic.”

As at 31 December 2020, 3,087 customer accounts remain on deferral, down 86 percent from the peak on 31 May 2020. The value of accounts where repayments have been deferred is ~\$1.1 billion, down 84.2 percent from a peak of \$6.9 billion:

- Residential and consumer support packages total 2,466 accounts, down 86 percent since their May 2020 peak.
- Commercial support packages total 621, with minimal loan exposure to the most impacted industries, down 87 percent since their peak in July 2020.

As at 31 January, the total number of loans on deferral arrangements represents less than one percent of the Bank's loan book.

"The personal support we offered customers in 2020, underpinned by our customer and community connection and our enduring purpose, saw us rated as one of Australia's top 20 most trusted brands - in all categories. This combined with our consistently high customer satisfaction scores among home loan customers and our business banking division - named the highest rated bank for supporting customers through COVID-19 - resulted in further growth opportunities for our Bank.

"To better meet evolving customer trends and further support an efficient and convenient in-person customer experience, the optimisation of our branch network continued with a new community-focused experience store opening in Bendigo, a net reduction of 12 branches and a 16 percent increase in mobile relationship managers (MRMs). This half, MRMs have written more than \$1 billion in loans, a 61 percent increase on the prior corresponding period.

"As we continue to invest in areas where our customers demand a greater experience, our branches remain important to our community connection, whilst attracting strong customer deposits to support our business.

"In line with our strategic imperatives to reduce complexity, invest in capability and tell our story, this half we also continued to simplify and modernise our technology, enhance strategic partnerships and further implement digital capability to reduce costs and improve the experience we offer our customers."

Accelerating business transformation

"Our transformation work will continue in line with our strategy to drive sustainable growth, manage costs and deliver a seamless multi-channel customer experience. This will see us further streamline and digitise customer journeys, invest in API and Cloud technology to radically simplify our technology, consolidate our multiple core banking systems and automate manual processes," said Ms Baker.

Dividends

"The Board has declared a dividend of 28 cents per share which includes 4.5 cents per share relating to the full year 2020 final dividend and 23.5 cents per share relating to the interim 2021 dividend. A fully underwritten DRP (Dividend Reinvestment Plan) has also been announced with a 1.5 percent discount applicable. This follows the Board considering it prudent to defer its decision on the final full year dividend last year, given the challenging and uncertain environment at the time. This decision today supports our strong capital position, our business outlook, including expectation of continued above system lending growth and APRA's recent industry guidance on capital management, whilst balancing our commitment to support our shareholders with ongoing market and economic uncertainty."

Operating expenses

Operating expenses were \$517.4 million, down 3.1 percent on the half, driven by a strong focus on achieving sustainable cost reductions across the business.

Technology and transformation investment spend to support the Bank's strategic imperatives was \$35.2 million. Underlying operating expenses declined \$17.6 million for the half, reflecting a group-wide refocus on sustainable reductions in cost base.

The majority of the Bank's FTE reductions occurred in November and December, pushing most of the expected cost benefit into the second half of financial year 2021.

“The accelerated focus on our cost reduction programs delivered a solid decrease in recurring operating expenses, contributing to a sustainable improvement in the Bank’s cost to income ratio which declined 520 basis points on the previous half.

“In August, we said we were targeting total operating expenses to be flat or even lower than last financial year. We have delivered on that this half, whilst continuing the level of investment spend needed to accelerate our transformation, and we are committed to returning to target income growth exceeding cost growth this financial year. We are well on track to drive sustainable growth and reduce our medium-term cost to income ratio towards 50 percent as we align our transformation investment with revenue growth and our vision,” said Ms Baker.

Outlook

“With business confidence and consumer sentiment up, an ongoing low-rate environment, a growing housing market, an improving jobs market, continued growth in regional Australia, and our customers showing remarkable resilience and adaptability, we are buoyed by the outlook. However, we always take a long-term view, and we remain mindful of the global and local impacts of the pandemic, international trade sentiment, decisions on government support measures and the ongoing reality of natural disasters and climate change.

“Looking ahead, supported by our growth and transformation strategy, we continue to target above system residential lending and further growth in small business and agribusiness sectors, whilst reducing our cost base, and maintaining a strong and resilient balance sheet.

“We continue to invest in new capabilities, partnerships, technology and skills, which when combined with our deep human-approach, high trust and positive net promoter scores, will allow us to become even more innovative and agile in responding to our customers’ ever-changing needs, and further grow market share.

“As we progress our strategy and transformation program, we remain firmly committed to supporting the success of all stakeholders by increasing the capability we offer them, improving the productivity of our business and carefully managing our costs.

“Our advantages and market opportunities lie in the strength of our purpose, values, strategy, and customer commitment - which remains central to who we are - as we continue our journey to be Australia’s bank of choice,” concluded Ms Baker.

Interim Result webcast

The results presentation webcast will be held today, Monday 15 February 2021 at 10:00am AEDT. [Click here](#) to watch the webcast live. A replay of the webcast will then be made available at the Bendigo and Adelaide Bank website from 2.00pm AEDT www.bendigoadelaide.com.au

1. All results relate to the half year ended 30 December 2020, with all comparisons against "prior corresponding period". The term "prior corresponding period" refers to the half year ended 31 December 2019.
2. Ex-dividend date for FY21 interim dividend of 23.5¢ and FY20 final dividend of 4.5¢ (total dividends 28¢) is 18 February 2021, record date is 19 February 2021, and dividend payment date is 31 March 2021.
3. APRA Monthly Banking Statistics 2020. Data is an annualised growth rate based on a 6-month period (30/06/20 – 31/12/20)
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.

Appendix: Reconciliation

	1H21 (\$m)	2H20 (\$m)	1H20 (\$m)
Statutory Profit after tax	\$243.9	\$47.0	\$145.8
Fair value adjustments	-	-	\$0.1
Homesafe unrealised adjustments	(\$39.6)	\$6.2	(\$22.6)
Hedging revaluation	\$5.7	(\$6.7)	\$8.9
Merchant services – Tyro	\$3.1	-	-
Impairment charge	-	\$1.6	\$1.2
Software impairment	-	\$24.6	\$60.9
Operating expenses¹	-	\$6.2	\$15.3
Amortisation of intangibles	\$1.2	\$1.1	\$1.1
Cash earnings after tax (subtotal)²	\$214.3	\$80.0	\$210.7
Homesafe net realised income after tax	\$5.4	\$6.0	\$5.0
Cash earnings after tax	\$219.7	\$86.0	\$215.7

¹ Operating expenses include restructuring costs, legal costs and software accelerated amortisation costs

² Cash earnings after tax (subtotal) is equal to cash earnings before Homesafe realised income

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 7,000 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.

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