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# Results Presentation

For the half year ended 31 December 2017

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Overview

Financial performance

Summary and outlook

Appendices

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# Mike Hirst

Managing Director

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# Our 1H18 result

## Financial Performance

- Statutory profit after tax up \$22.7m to \$231.7m
- Cash earnings up \$21.8m to \$225.3m
- Cash earnings per share up 3.3 cents to 46.8 cents
- Interim dividend up 1 cent to 35 cents
- Discount removed on DRP
- Net interest margin up 18bps to 2.36%
- Cost to income ratio down 220bps to 54.2%
- Cash operating expenses up 2.0% to \$445.5m
- Return on average tangible equity up 28bps to 11.71%
- Return on average ordinary equity up 39bps to 8.33%

## Balance sheet management & capital

- CET1 ratio up 64bps to 8.61%
- Total capital up 78bps to 12.98%
- Liquidity coverage ratio of 128.8%
- Indicative NSFR 111%
- Retail deposit funding mix of 79.6%

## Credit

- Total impaired assets down \$11.9m to \$288.8m
- Past due 90 days loans down \$57.2m (10.7%)
- Great Southern past due 90 days down \$40.5m to \$62.7m

Note: 1H18 movements are based on comparison to PCP

# Result drivers

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**Owner  
Occupied  
P&I flows up**

**13%**<sup>1</sup>

**Investor loan  
flows down 59%**<sup>1</sup>

**Interest only  
flows down 41%**<sup>1</sup>



**Housing lending  
growth up 0.7%**<sup>2</sup>



**Business lending  
growth down 2.2%**<sup>2</sup>



**Margin up 18bps  
at 2.36%**<sup>3</sup>

**Continued  
productivity  
improvement**

**Restructure business  
banking portfolio**



**Risk Weighted  
Assets down 1.6%**<sup>3</sup>

**Funding  
flexibility**



**CET1 up 64bps  
to 8.61%**<sup>3</sup>

1. 1H18 settlement flows are based on comparison to PCP  
2. Growth figures are June-17 to Dec -17  
3. 1H18 movements are based on comparison to PCP



# Australia's most customer connected bank

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## Rated Top Bank<sup>1</sup>

### Mozo People's Choice Awards

- Outstanding Customer Satisfaction
- Excellent Customer Service
- Highly Trusted
- Staff Friendliness
- Most Recommended
- Excellent Banking Application
- Customer Satisfaction Everyday Banking
- Customer Satisfaction Credit Cards

Experts Choice Award 2017  
Low Rate Platinum Credit Card

## #1

### Forrester's Australian Customer Experience Index<sup>3</sup>



### Asiamoney Best Bank Awards<sup>4</sup>

- ✓ Best Domestic Bank
- ✓ Best Bank for Corporate Social Responsibility



### RFI Group Australian Business Banking Awards<sup>5</sup>

Outstanding product and service offerings for Australian business owners



### JD Power Awards<sup>6</sup>

Ranked highest in credit cards



### Brand Sentiment Bendigo Bank 9.2% above industry<sup>8</sup>



### 92.1% Highest home loan customer satisfaction<sup>7</sup>



## Fortune 2017 Change the World<sup>2</sup>

Ranked 13th organisation globally and the leading Australian company

1. Mozo People's Choice Awards – 2017 2. FORTUNE 2017 Annual "Change the World" List of Companies 3. Forrester's Customer Experience Index Online Survey, Australian consumers 2017 4. Asiamoney Best Bank Awards 2017 5. RFI Group Australian Business Banking Awards – August 2017 6. JD Power 2017 Australia Credit Card Satisfaction Study – August to September 2017 7. Among 10 largest consumer banks, Roy Morgan Consumer Banking Satisfaction December 2017 8. Evolve Research



# Competitive environment

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**Trust**



**Customer expectations**



**Technology**



**Banking model transition**



**Operating conditions**



# Our focus areas

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**Enabling customer choice**



**New opportunities for growth**



**Partnering for shared success**



**Developing our people**



**Driving capital and operational efficiency**





Our vision is to be  
Australia's most  
customer connected bank

160 years  
of making  
positive change

We focus on the success  
of our customers, people,  
partners and communities

**Mike Hirst**  
Managing  
Director

**Marnie Baker**  
Chief Customer  
Officer

**Taso Corolis**  
Chief Risk  
Officer

**Richard  
Fennell**  
Chief Financial  
Officer,  
Executive  
Corporate

**Alexandra  
Gartmann**  
Executive,  
Agribusiness  
and Managing  
Director, Rural  
Bank

**Robert  
Musgrove**  
Executive,  
Engagement  
Innovation

**Bruce Speirs**  
Executive,  
Partner  
Connection

**Stella  
Thredgold**  
Executive,  
Business  
Enablement

**Andrew  
Twaits**  
Chief  
Engagement  
Officer



**Taso Corolis**

Taso Corolis joined Bendigo and Adelaide Bank in 2011 and was responsible for quantitative analytics, reporting and risk governance within Group Risk. He joined the Bank from Rural Bank (now a wholly owned subsidiary), where he served as the Chief Risk Officer since 2008. Taso has approximately 20 years' experience in the financial services industry. This includes ten years in senior roles with the Australian Prudential Regulation Authority (APRA). He holds degrees in Economics and Commerce and postgraduate qualifications in Finance and Investments.

Taso is also a non-executive director of Workskil Australia, a national not-for-profit and charitable organisation committed to transforming people's lives through employment, health, Indigenous and disability services.

**Andrew Twaits**

Andrew Twaits joined Bendigo and Adelaide Bank in September 2017, with responsibility for products, marketing, digital, communications and government relations. Prior to that, Andrew ran his own digital/data strategy consulting business, advising some of Australia's largest companies and best know brands across the retail, media, sporting, industrial and financial services industries. Andrew has been the CEO of a high profile technology joint venture and has held other senior roles in sport and professional services. Andrew has undergraduate qualifications in commerce and law, postgraduate qualifications in law and business administration and is a graduate of the Australian Institute of Company Directors. He was elected to the Macedon Ranges Shire Council in 2016 and is the Chairman of the AFL Players' Association.

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**Richard Fennell**

Chief Financial Officer

# Financial performance - at a glance

	1H18	2H17	1H17	Change 1H18 – 2H17	Change 1H18 - 1H17
Statutory NPAT	\$231.7m	\$220.6m	\$209.0m	5.0%	10.9%
Cash Earnings	\$225.3m	\$214.8m	\$203.5m	4.9%	10.7%
Cash EPS	46.8¢	45.0¢	43.5¢	1.8¢	3.3¢
Net interest margin	2.36%	2.26%	2.18%	10 bps	18 bps
Expense to income ratio	54.2%	55.7%	56.4%	(150 bps)	(220 bps)
Expense to average assets	1.28%	1.28%	1.28%	-	-
Return on tangible equity <sup>1</sup>	11.71%	11.80%	11.43%	(9 bps)	28 bps
Return on equity <sup>1</sup>	8.33%	8.27%	7.94%	6 bps	39 bps
Dividend per share	35.0¢	34.0¢	34.0¢	1¢	1¢

1. Cash earnings basis

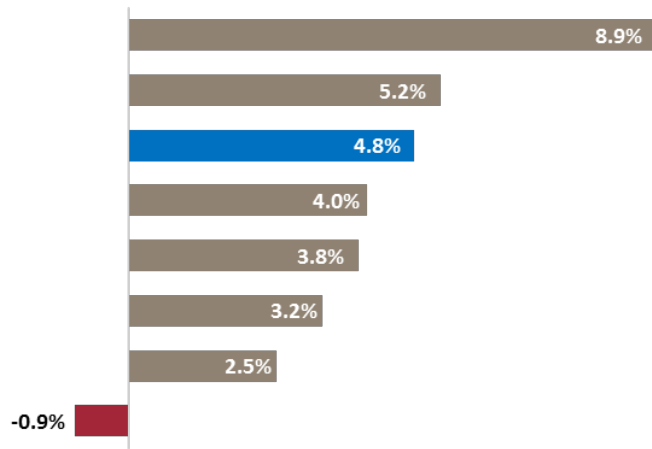


## Balance sheet and capital - at a glance

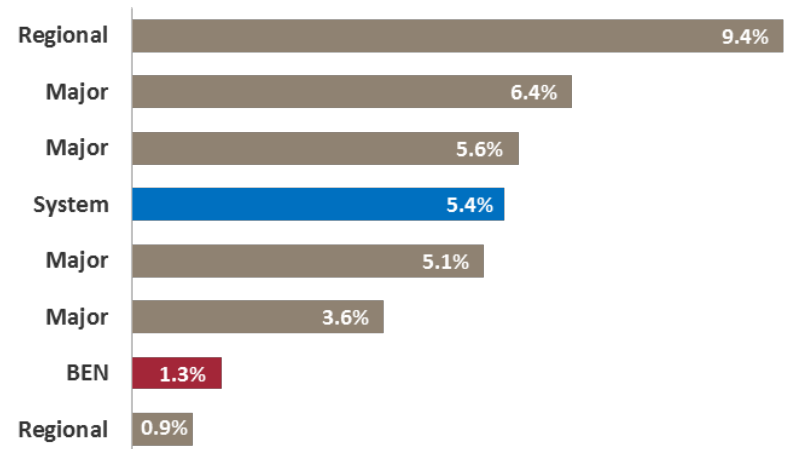
	1H18	2H17	1H17	Change 1H18 – 2H17	Change 1H18 - 1H17
Lending assets	\$60.6b	\$60.9b	\$60.1b	(\$0.3b)	\$0.5b
Risk weighted assets	\$37.7b	\$38.1b	\$38.3b	(\$0.4b)	(\$0.6b)
Total assets	\$71.3b	\$71.4b	\$70.9b	(\$0.1b)	\$0.4b
Deposit funding	79.6%	80.2%	80.2%	(60bps)	(60bps)
Total liability	\$65.7b	\$66.0b	\$65.6b	(\$0.3b)	\$0.1b
Total capital	12.98%	12.46%	12.20%	52bps	78bps
CET1 capital	8.61%	8.27%	7.97%	34bps	64bps

# 1H18 growth outcomes

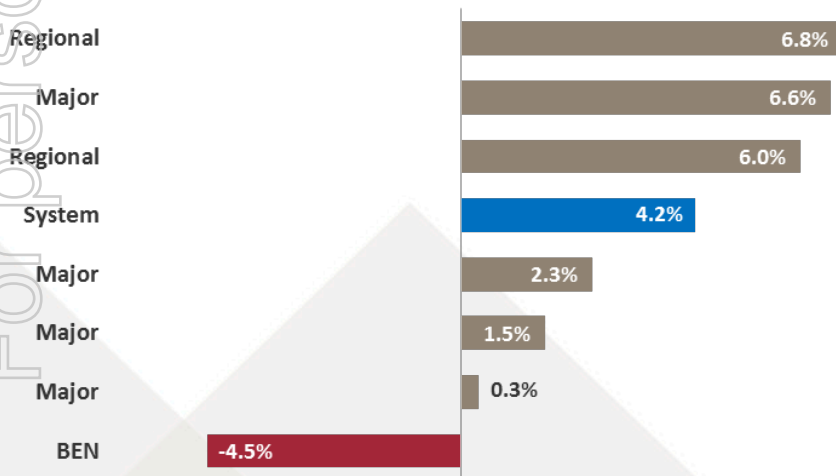
## Total lending growth



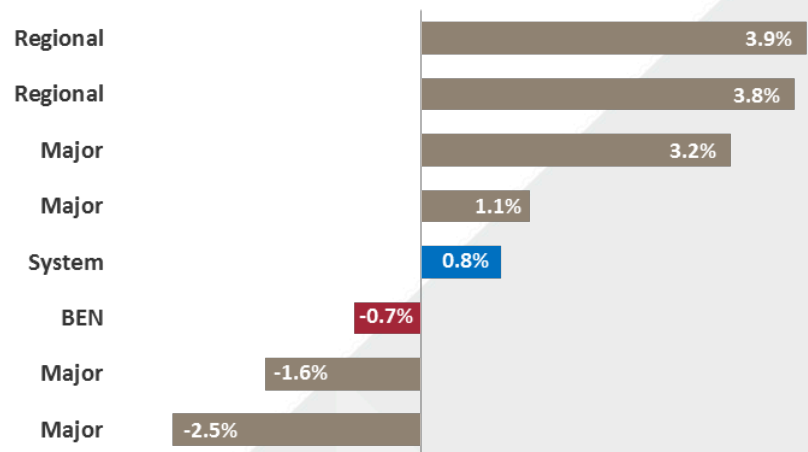
## Housing loan growth



## Business lending growth



## Total deposit growth

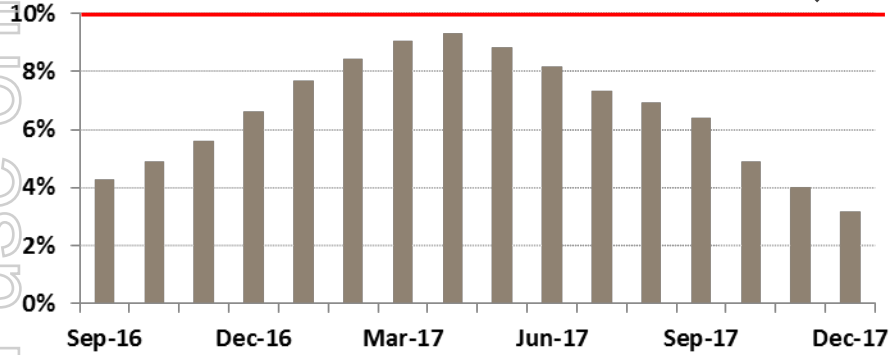


Source: APRA statistics December 2017  
 Note - Data is based on 6 month growth annualised and BEN includes Rural Bank

# 1H18 residential mortgage growth outcomes

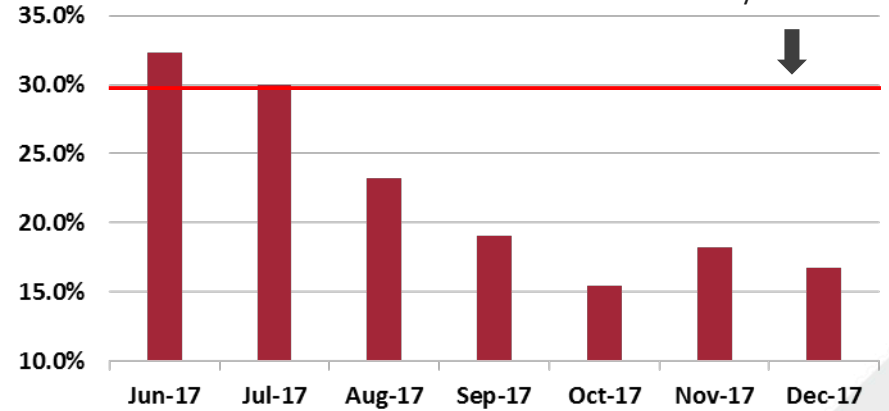
### Investor credit growth

10% Investor growth limit

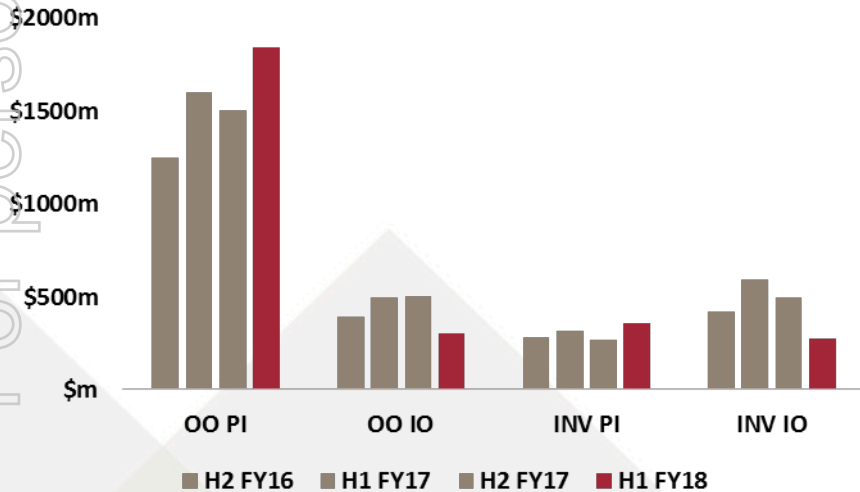


### Interest only flows

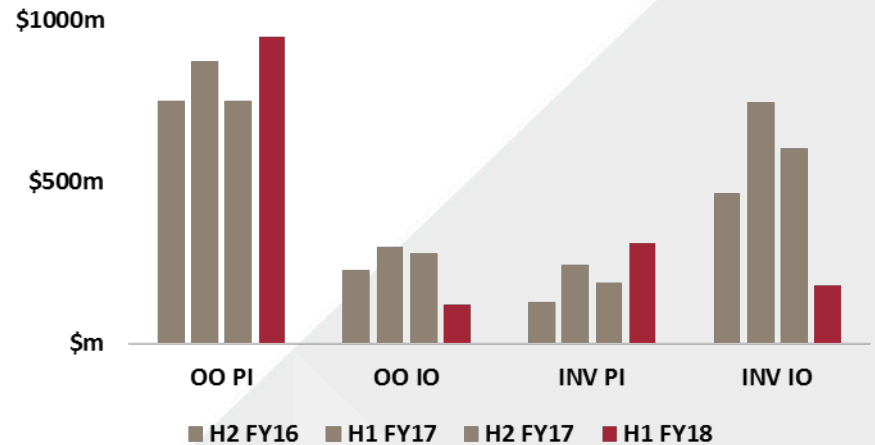
30% Interest Only flows limit



### Local Connection - settlements breakdown<sup>1</sup>



### Third Party Banking - settlements breakdown<sup>2</sup>



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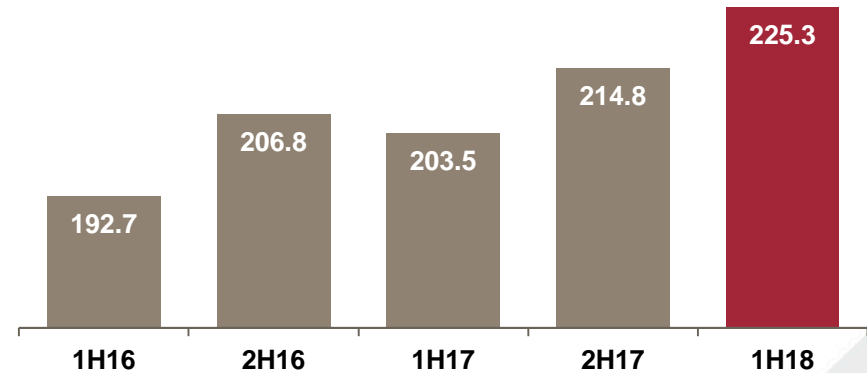
1. Loan settlements for Bendigo Bank excluding line of credits  
 2. Loan settlements for Adelaide Bank excluding line of credits



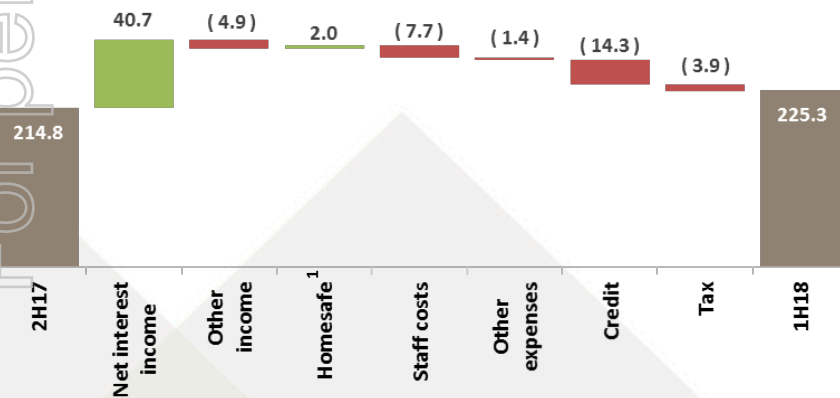
# Cash earnings growth

- Strong margin performance
- Reduced contribution from trading book
- Lower ATM and transaction fees
- Efficiency focus maintained – FTE reduced
- Increased credit costs from commercial property lending
- Cash earnings include Homesafe contribution on realised basis

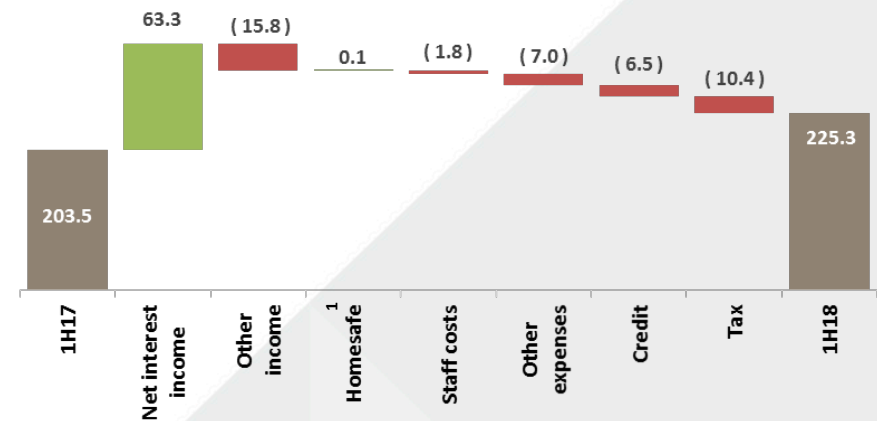
## Cash earnings (\$m)



## Cash earnings 2H17 - 1H18 (\$m)



## Cash earnings 1H17 - 1H18 (\$m)

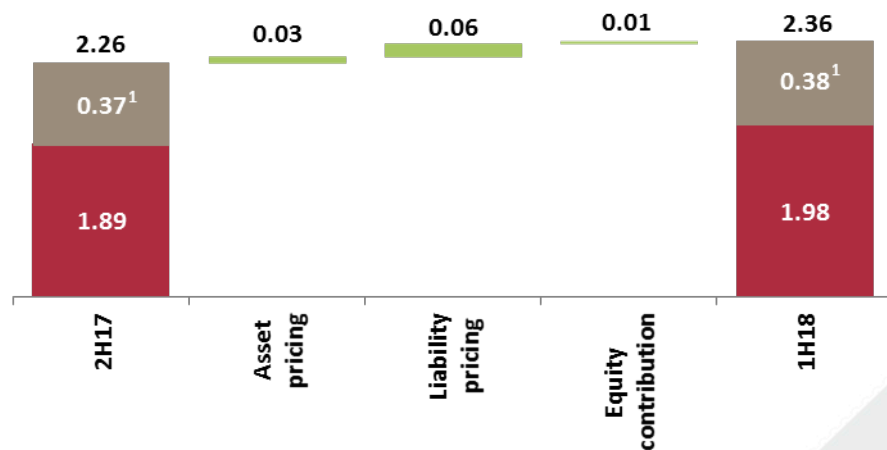


1. Homesafe net realised income

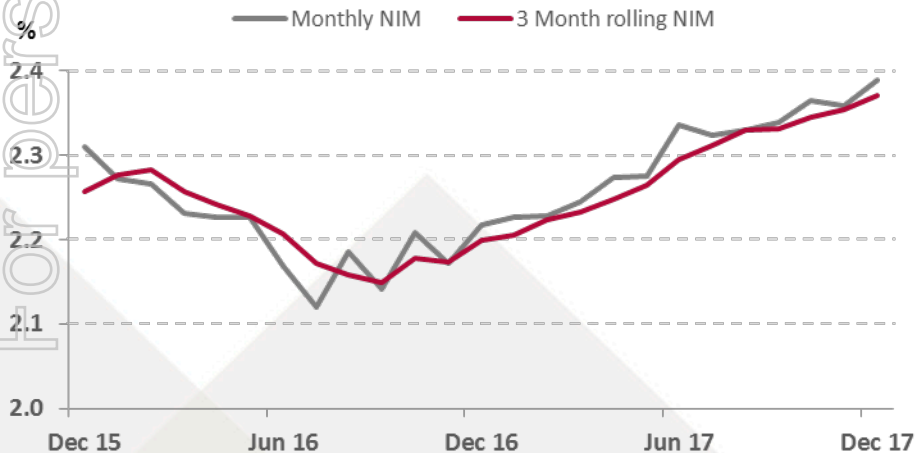
# Net interest margin

- Disciplined approach to both asset and liability pricing
- Exit margin of 2.38%
- January 2018 monthly margin of 2.37%
- Front book discounts will challenge margin in 2H18

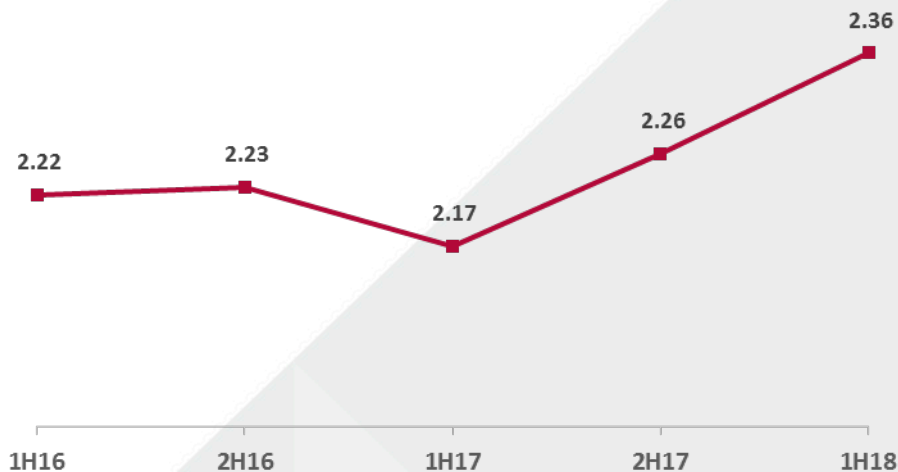
### Net interest margin movement (%)



### NIM monthly movement



### Net interest margin (%)



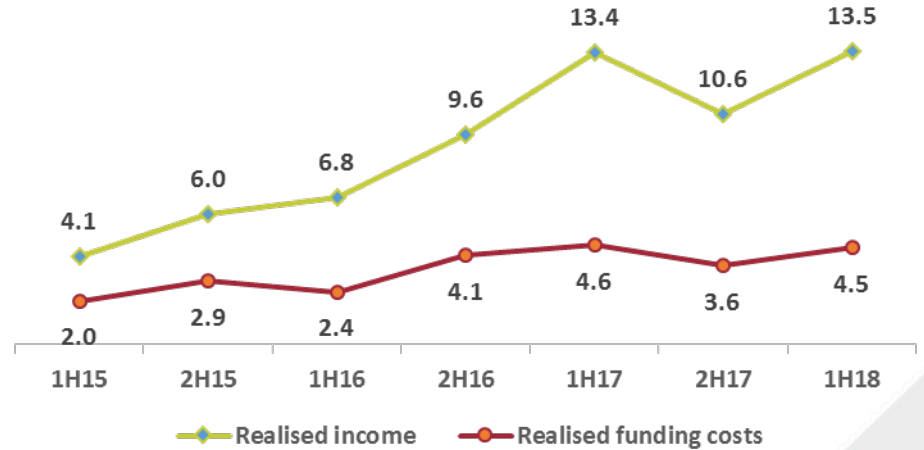
1. Community Bank & Alliance Bank share

# Homesafe investment property portfolio

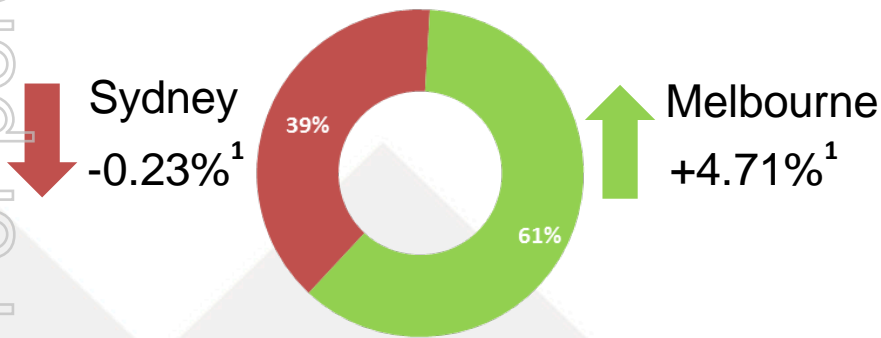
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- Proceeds on completed contracts continue to exceed pre-overlay values
- Overlay reflects an assumed 3% increase in property prices for the next 18 months before returning to a long term growth rate of 6%
- Average annual return on completed contracts since inception is 9.8%, pre funding costs

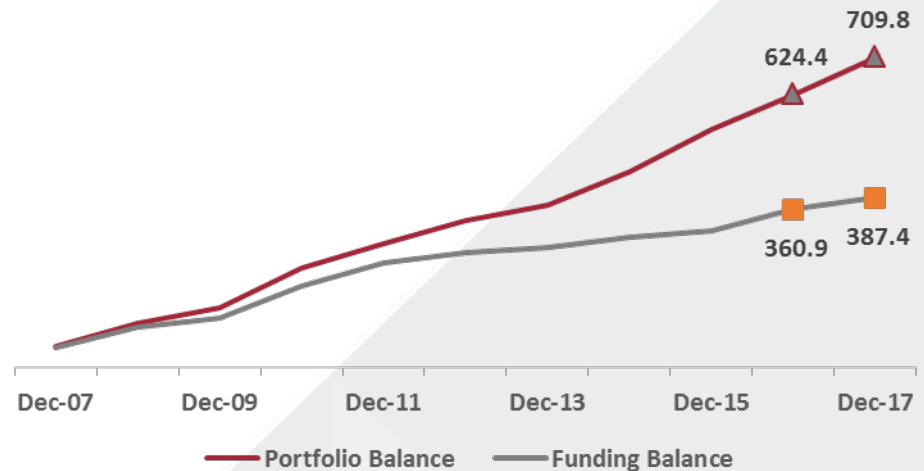
### Realised - income vs funding costs (\$m)



### Homesafe portfolio distribution<sup>1</sup>



### Homesafe portfolio & funding balance (\$m)



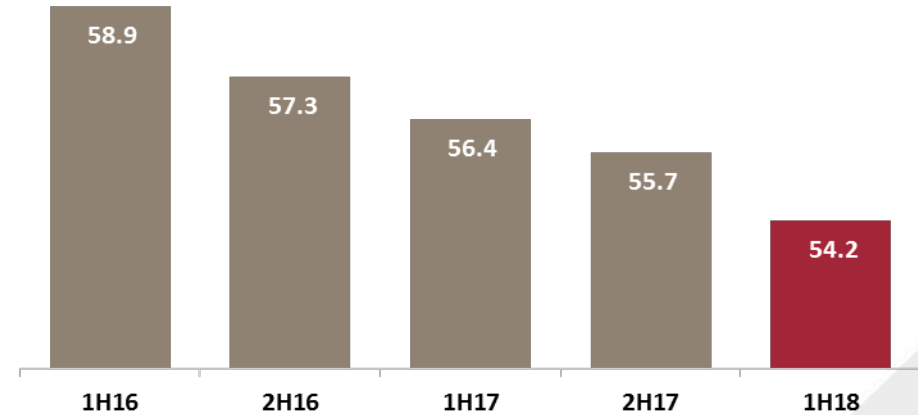
1. 6 months ending 31 December 2017 movement reflects Residex movement between 1 June 2017 and 30 November 2017



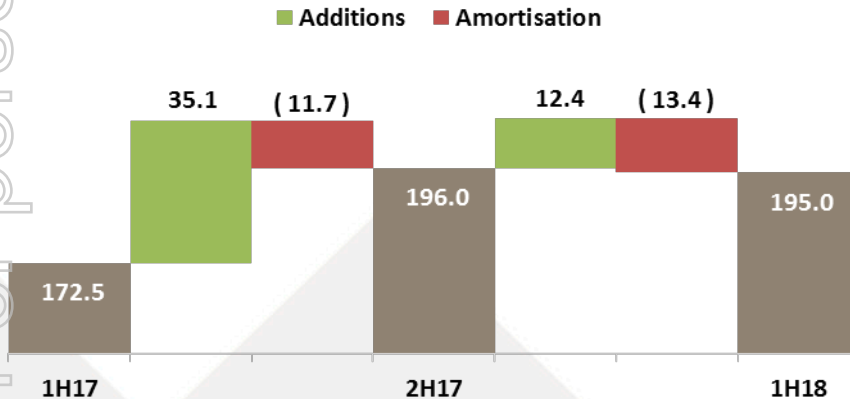
# Active cost management

- Strong jaws outcome
- Exiting non core businesses - Telco, Wills and Estates and Debenture Trustee
- Software amortisation up \$4.5m (50%) on 1H17
- Staff costs up 0.7% on PCP
- Salary increase of 2.5% for salaried staff and 3.0% for Enterprise Agreement staff

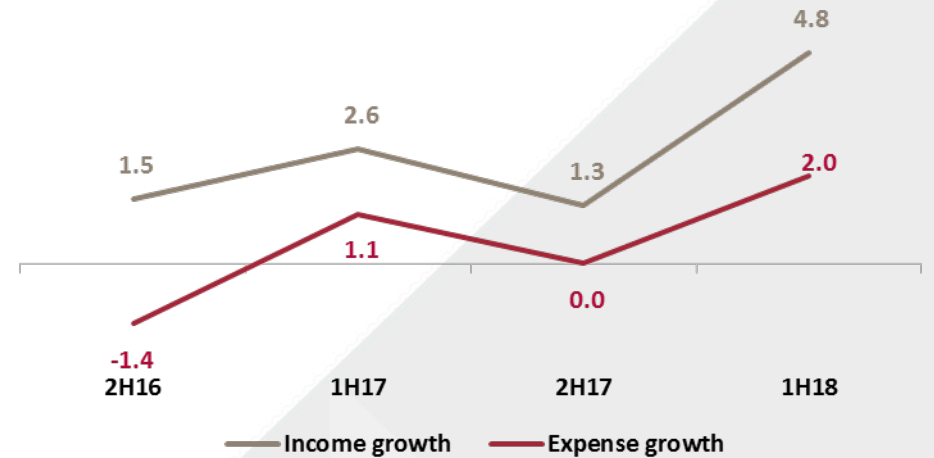
### Expense to income ratio (%)



### Capitalised software (\$m)



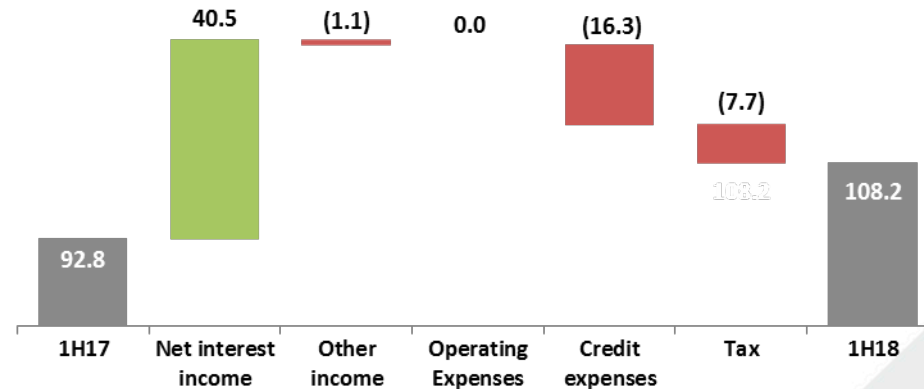
### Jaws momentum (%)



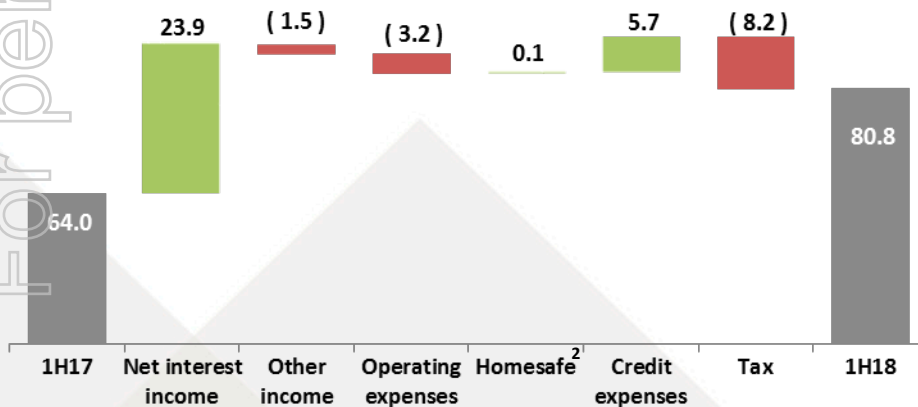
# Business segment performance (cash earnings)

- All lending markets remain highly competitive
- Margin improvement in Local and Partner Connection businesses
- Strong cost control in all segments
- Managed funds up 10%<sup>1</sup>, Bendigo SmartStart Super up 33%<sup>1</sup>
- Increased credit expense in Local Connection commercial lending
- Improved Partner Connection credit costs as Great Southern portfolio reduces in value

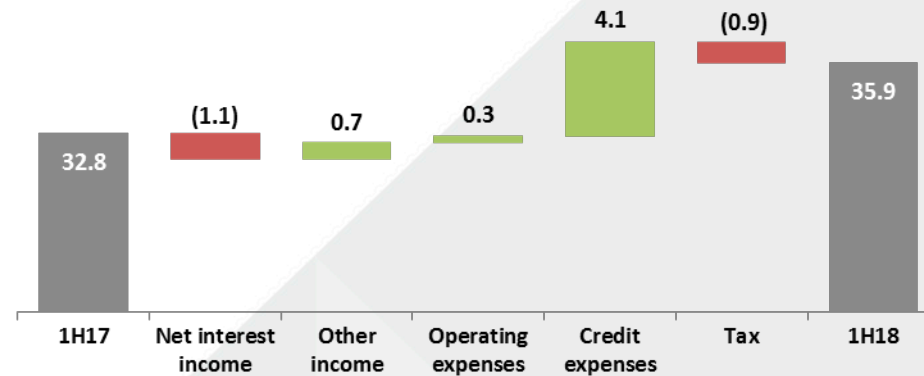
## Local Connection (\$m)



## Partner Connection (\$m)



## Agribusiness (\$m)



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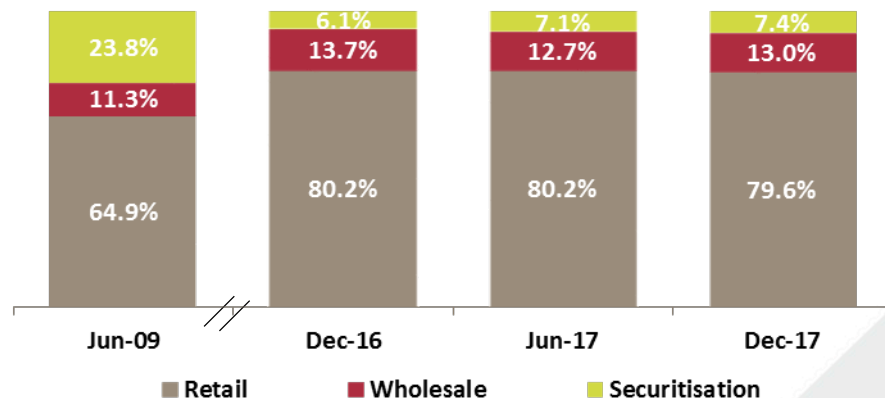
1. Growth is based on 12 month figures (Dec-16 to Dec-17)

2. Homesafe after tax realised income

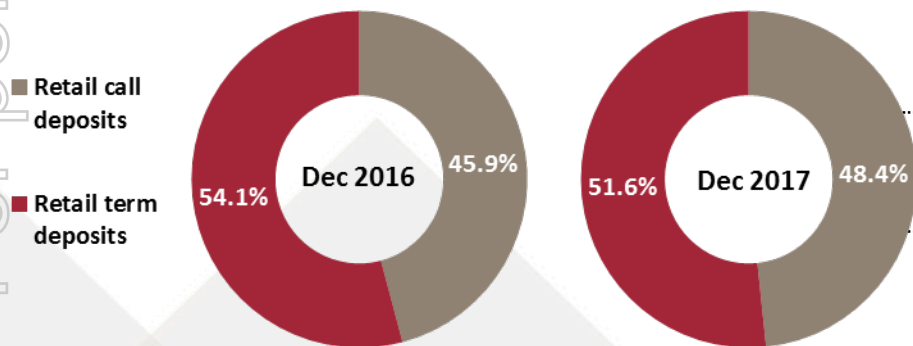
# Industry leading funding position

- Funding mix continues to be a strength providing flexibility for organic and inorganic asset growth
- Continued organic growth in retail call deposits
- LCR of 128.8% at 31 December 2017
- Indicative NSFR ~111%
- RMBS deal of \$750m completed in August 2017
- \$500m senior unsecured deal completed in January 2018 at +105bps

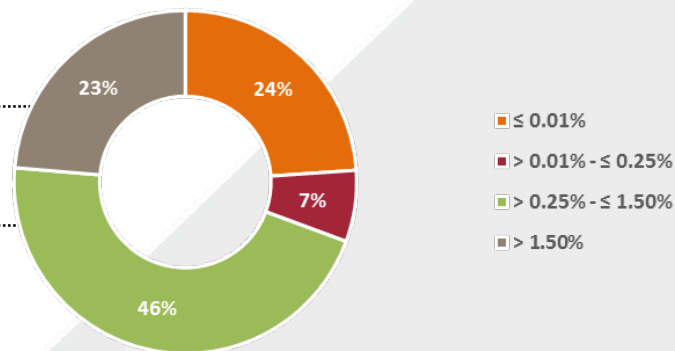
## Historical funding mix



## Retail deposit composition



## Retail call deposit funding costs

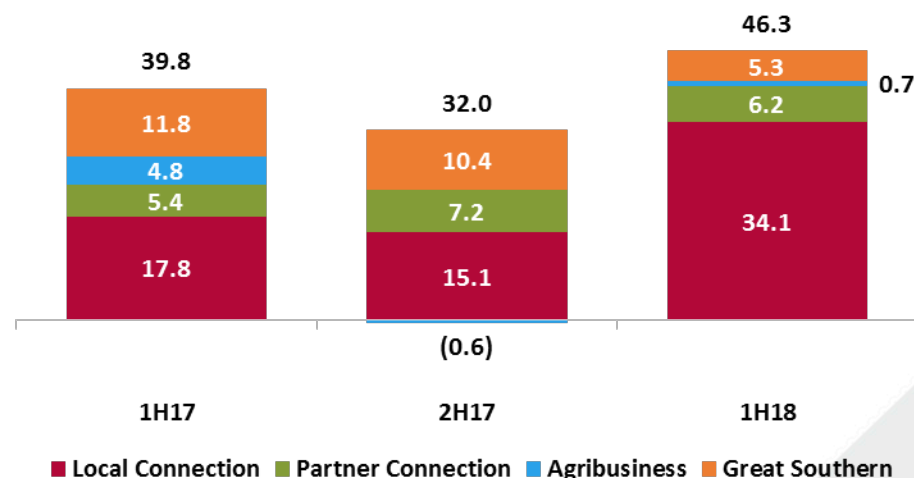




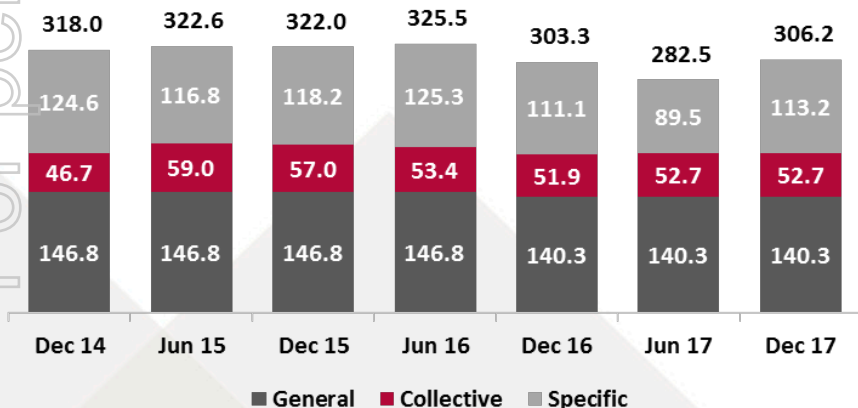
# Bad and doubtful debts

- BDD charge 15 basis points of gross loans, 13 basis points excluding Great Southern
- Higher BDD charge in 1H18 driven by commercial property lending
- Provision coverage 106% of impaired assets
- Reduced Agribusiness provisions reflect improved credit profile
- All core portfolios remain well secured, with low LVRs

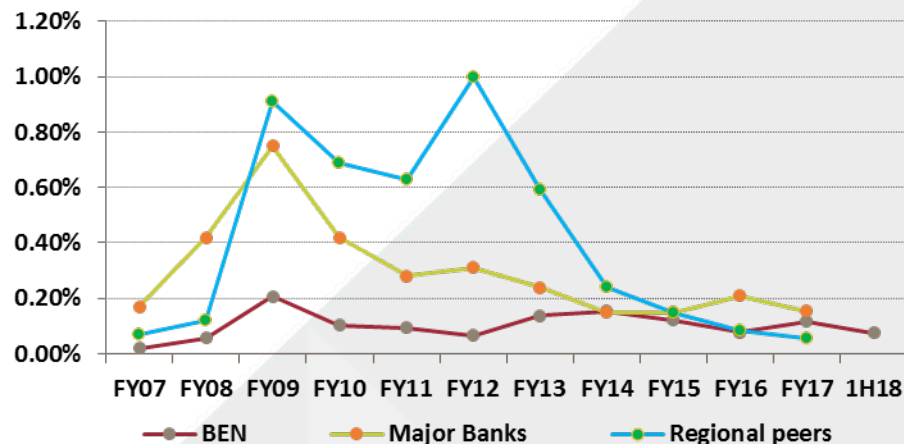
## Bad and doubtful debts composition (\$m)



## Provisions for doubtful debts (\$m)



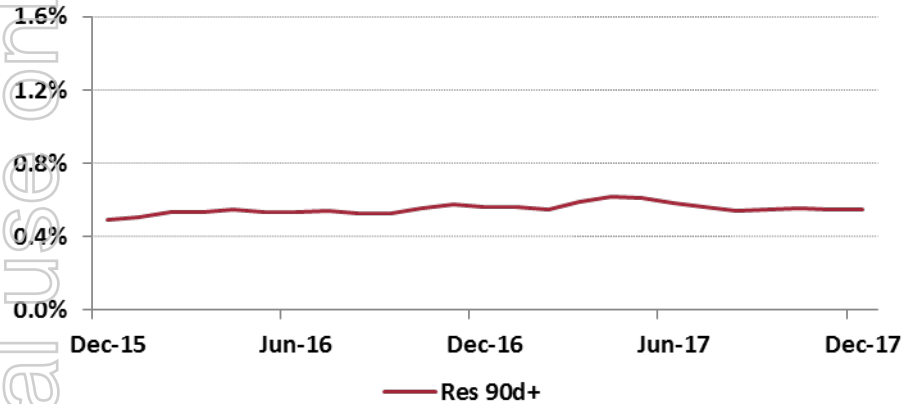
## BDD / Loans<sup>1</sup>



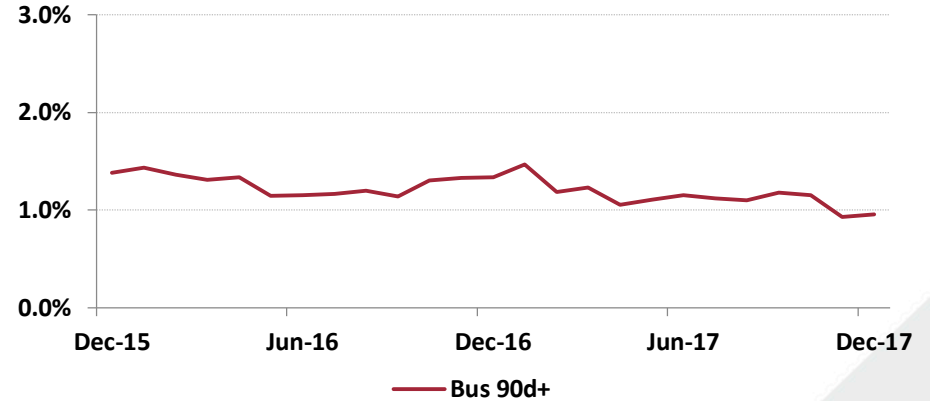
1. Company data

# Arrears remain benign

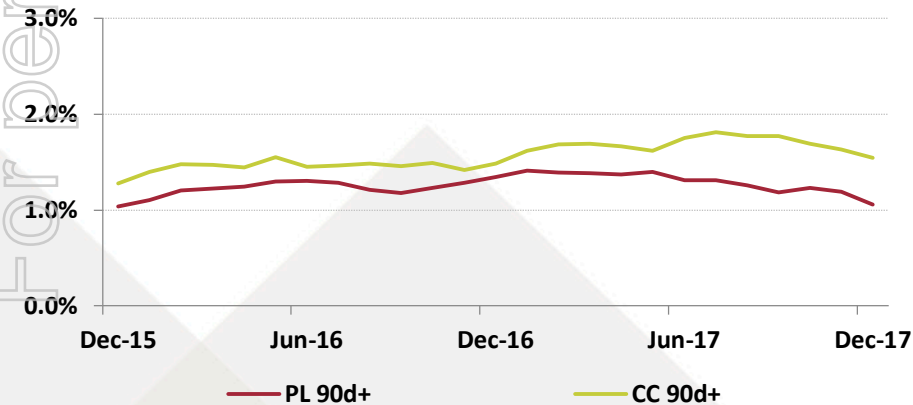
## Residential Loan Arrears



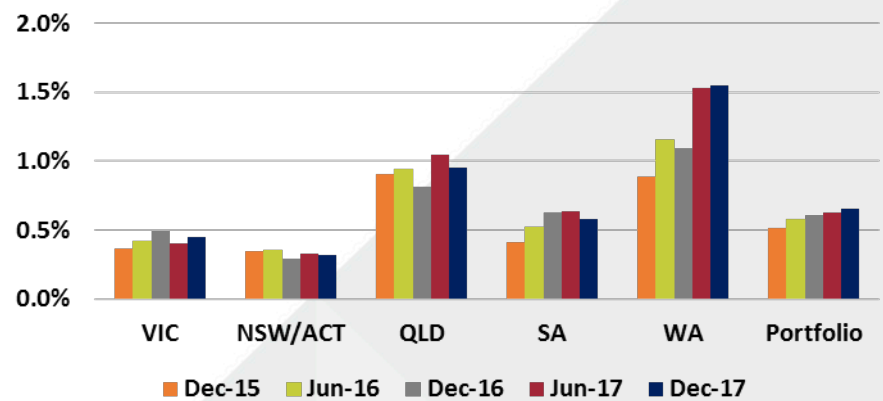
## Business Loan Arrears



## Consumer Loan Arrears



## Home Loans 90+ days past due - by state<sup>1</sup>

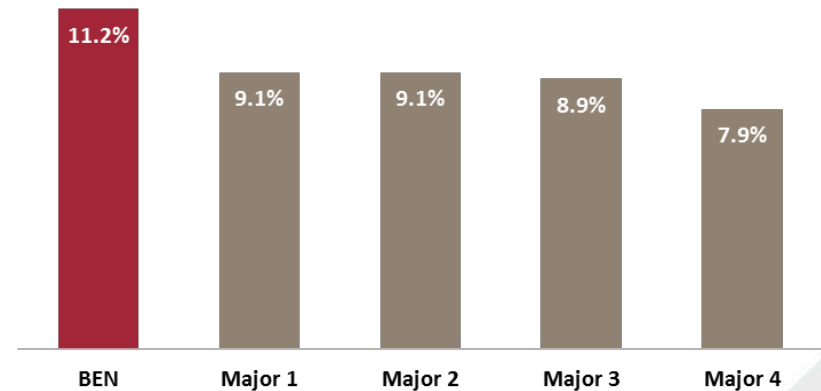


Note - Data excludes commercial arrangement loans  
 1. Keystart included from Jun-17

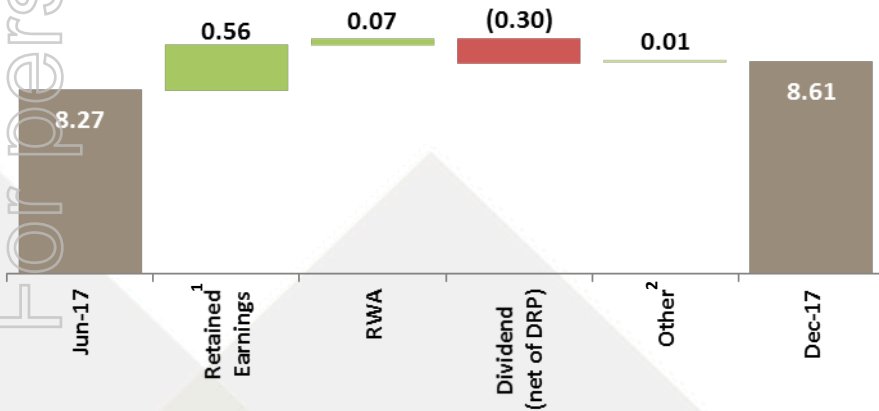
# Continued CET1 organic growth in 1H18

- Organic capital growth reflecting strong profitability, stable balance sheet and move to lower risk exposures
- Unquestionably strong target achieved
- Average credit risk weight down 1.3% from 48.7% to 47.4% of total assets
- S&P capital comparisons remain insightful

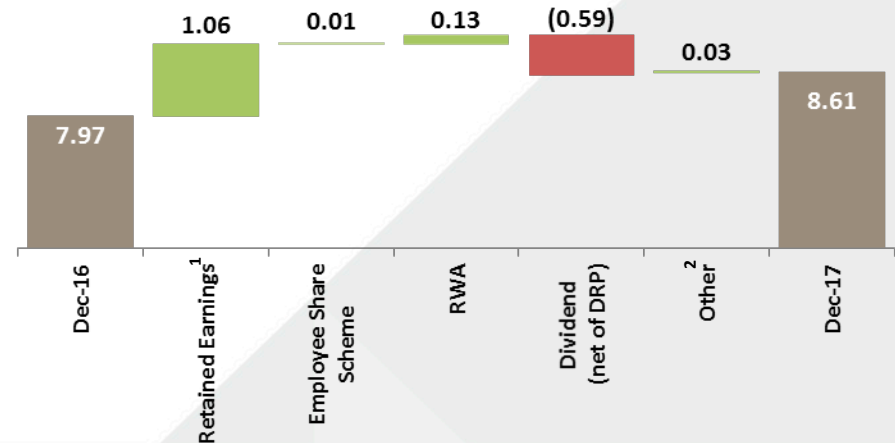
S&P RAC Ratio<sup>3</sup>



CET1 movement - 6 months



CET1 movement - 12 months



1. Unrealised Homesafe revaluation revenue excluded from increases in retained earnings was 11bps









2. Other includes movement in capitalised expenses, deferred tax assets and intangibles

3. S&P RAC ratio, Major 2, 3 & 4 as at 30 Sept 2017, BEN & Major 1 as at 30 June 2017



# Basel III: Revised capital for Credit Risk

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Asset Type	Portfolio	Impact on Capital	Portfolio size
<b>Residential mortgages</b>	Owner-occupied		<b>45%</b>
	Investor Lending		<b>23%</b>
<b>Business Lending</b>	SME		<b>15%</b>
	Commercial property		<b>3%</b>
	Property development		<b>2%</b>
<b>Consumer Lending</b>	Personal lending and credit cards		<b>2%</b>
<b>Undrawn exposures</b>	Undrawn facilities		<b>5%</b>
<b>Other</b>	Margin lending, Homesafe and others		<b>5%</b>


Based on BIS Basel III discussion paper released December 2017. Conservative estimate aligning with current APRA classification of mortgages. Portfolio size is based on estimated EAD equivalent.


CET1 estimated capital benefit

Standardised 50+bps

Advanced 100+bps

 = Lower capital requirement (favourable)

 = Higher capital requirement (unfavourable)

 = Neutral capital requirement

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**Marnie Baker**  
Chief Customer Officer

**Mike Hirst**  
Managing Director

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# Delivering on strategy

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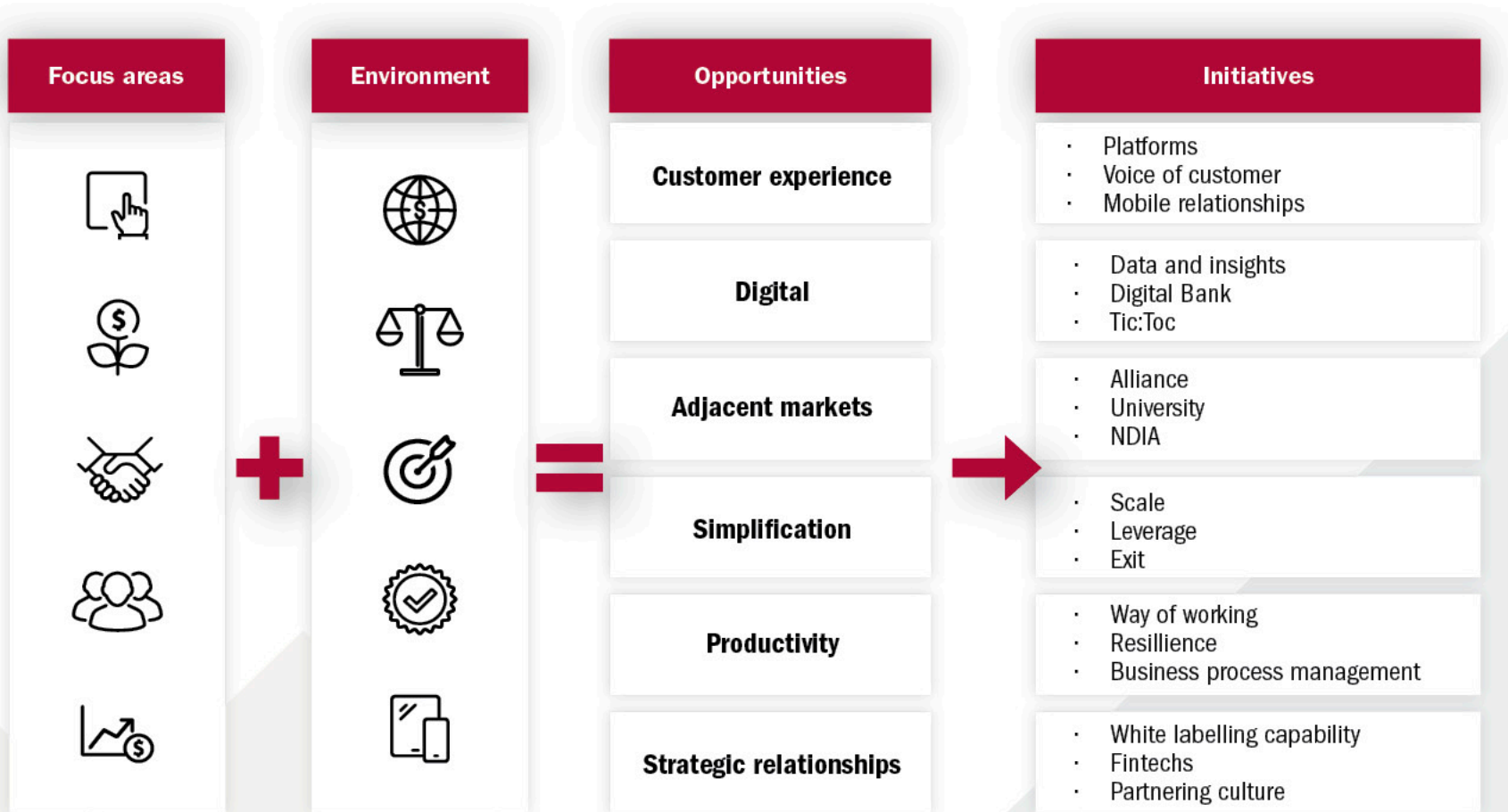
Focus areas	Objectives	Measures of success and H1 outcomes <sup>1</sup>
 <b>Enabling customer choice</b>	<b>Success for our customers and partners</b>	Net customer numbers growth <b>2.52%</b>
 <b>New opportunities for growth</b>		Customer net promoter score <sup>2</sup> <b>27</b>
 <b>Partnering for shared success</b>	<b>An environment where all our people grow, contribute and feel valued</b>	Partner experience index <b>50.9%</b>
 <b>Developing our people</b>		Employee net promoter score <b>65.9%</b>
 <b>Driving capital and operational efficiency</b>		Diversity and inclusion score <b>76.6%</b>
	<b>Sustainable growth and profitability</b>	Gender diversity in senior leadership group <b>40.5%</b>
		Lending growth <b>-0.9%</b>
		Net interest margin <b>2.36%</b>
		Cost to assets <b>1.28%</b>
		Cash earnings per share <b>46.8c</b>

1. Company data as at 31 December 2017  
 2. Roy Morgan Single Source, Bendigo Bank customers aged 14+ (any relationship), 6 months to December 2017



# Investment for the long term

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## Summary and outlook - A positive environment

- 1 LEAD** on values, purpose and customer satisfaction
- 2 DRIVE** data and insight capabilities
- 3 GROW** in customer consideration
- 4 EMBRACE** partner opportunities
- 5 FOLLOW FAST** on technology
- 6 MAINTAIN** long-term strategic view

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# Questions

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# Appendices

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# Our vision, strategy and purpose

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## Our Vision

Australia's most  
**customer connected** bank



**We focus on the success of our customers, people, partners and communities.**

We do this by:

- Taking a 100 year view
- Listening and responding
- Respecting every customer's choice, needs and objectives
- Partnering for shared success
- Working together as one team

### Teamwork

We are one team with one vision. We work together, encourage diversity and respect the unique contribution of each individual.

### Integrity

We build a culture of trust. We are open, honest and fair.

### Performance

We strive for sustainable success. We seek and provide feedback and find a better way.

### Engagement

We listen, understand – then deliver. We build our success through the success of others.

### Leadership

We all lead by example. We show initiative, are accountable and empower others.

### Passion

We believe in what we do and are proud of our bank.



## A diverse business



# Connected with our customers

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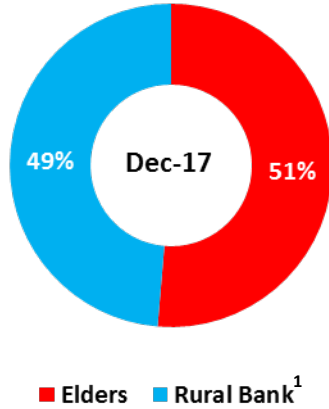
		Company-owned branch	<b>175</b>
		Community Bank® branch	<b>320</b>
		Delphi Bank	<b>15</b>
		Rural Bank	<b>9</b>
		Alliance Bank	<b>21</b>
<b>TOTAL BRANCHES</b>			<b>540</b>

ATMs	<b>700+</b>
Bendigo Bank mobile and business development managers	<b>100+</b>
Rural Bank relationship managers	<b>60+</b>
Mortgage brokers	<b>5000+</b>
eBanking customers	<b>600,000+</b>

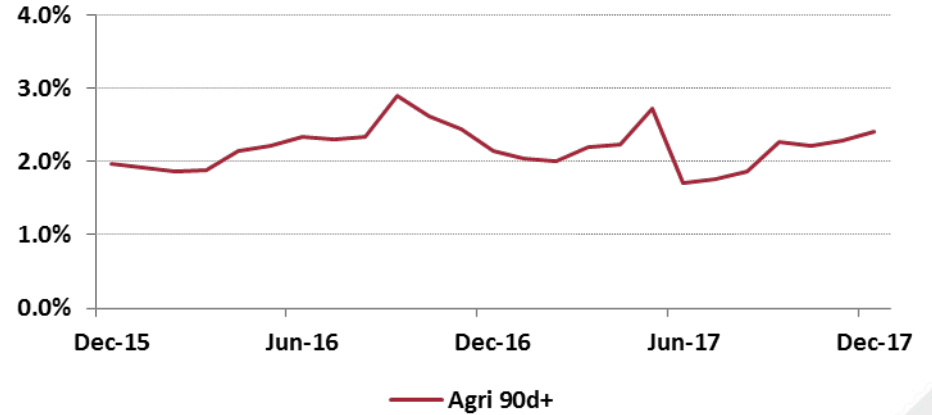
# Agribusiness

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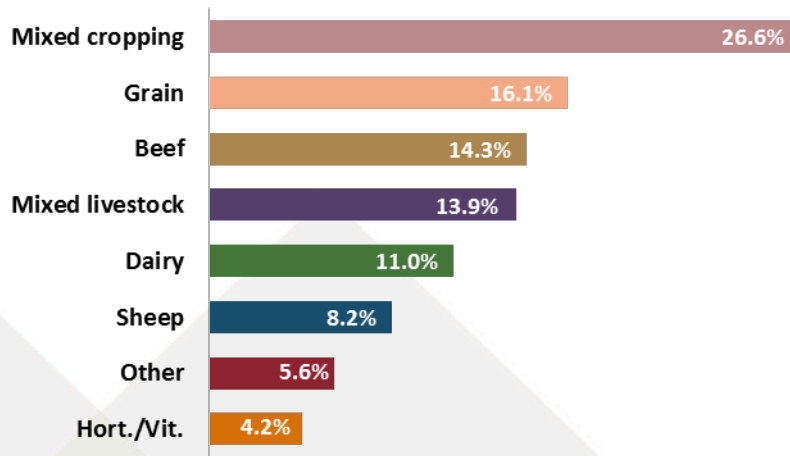
## Lending customer management



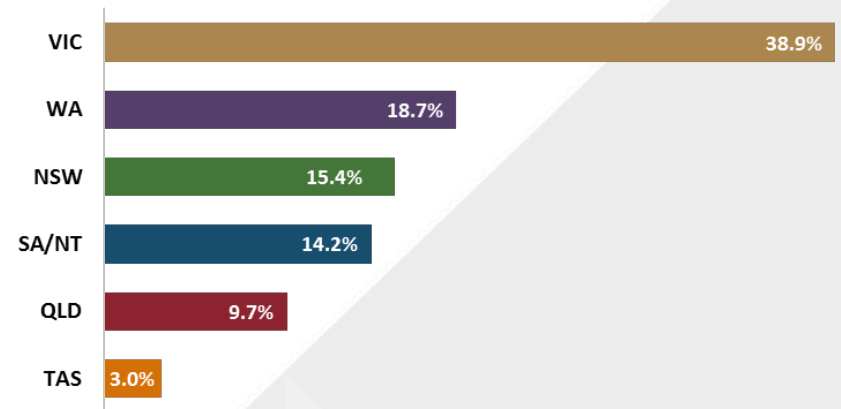
## Agribusiness Loan Arrears



## Agri exposure by industry



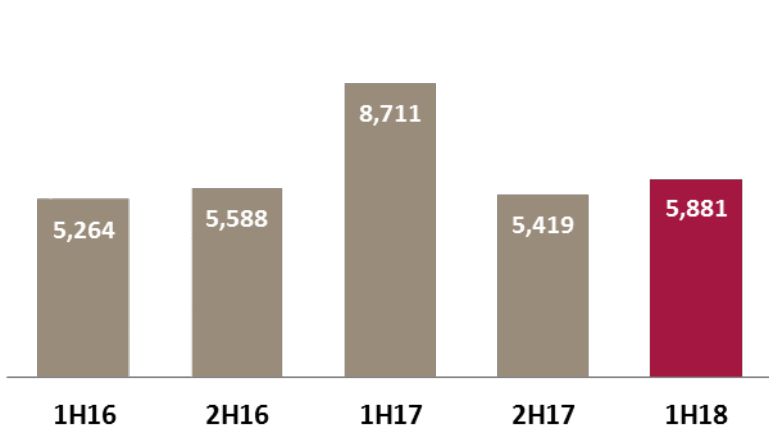
## Agri exposure by state



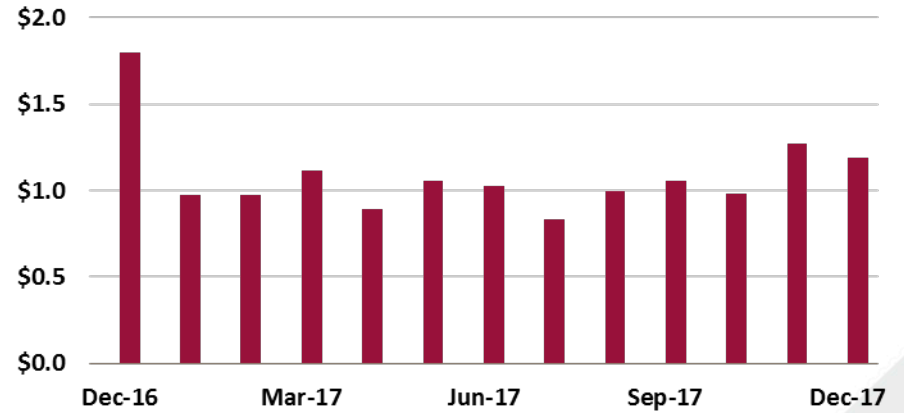
1. 18% jointly managed in partnership with Community Banks

# Residential lending

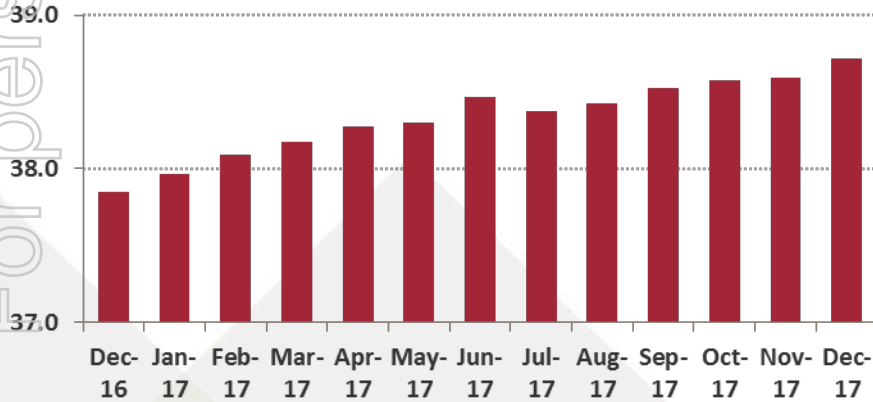
## Total residential loan approval (\$m)



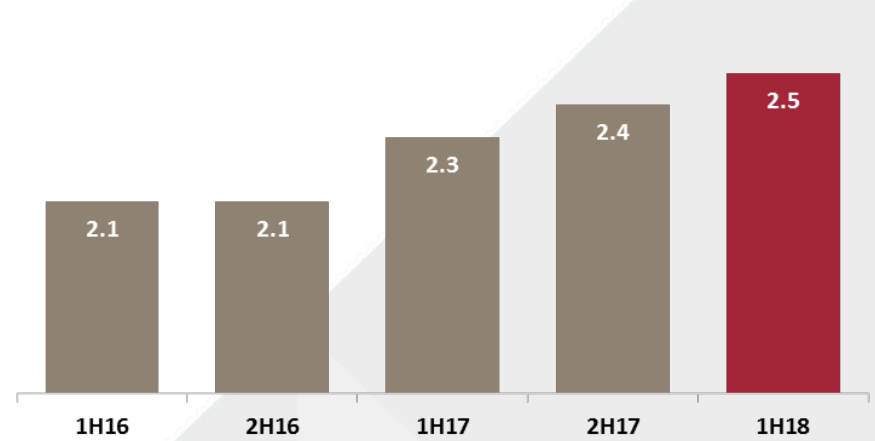
## Settlements



## Residential portfolio balance<sup>1</sup> (\$b)



## Offset account portfolio (\$b)



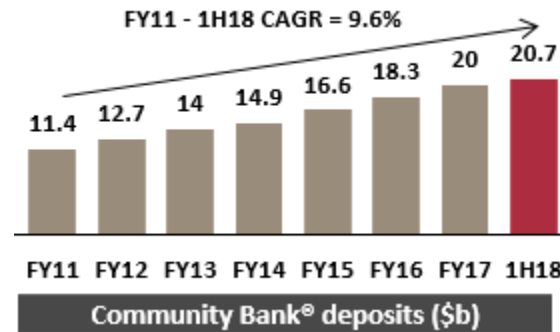
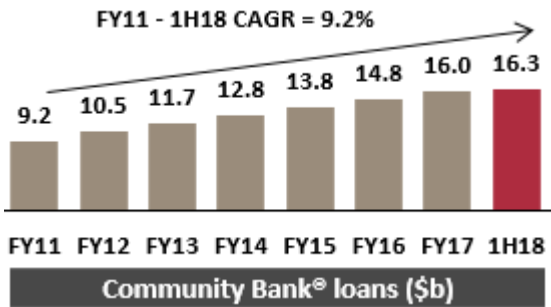
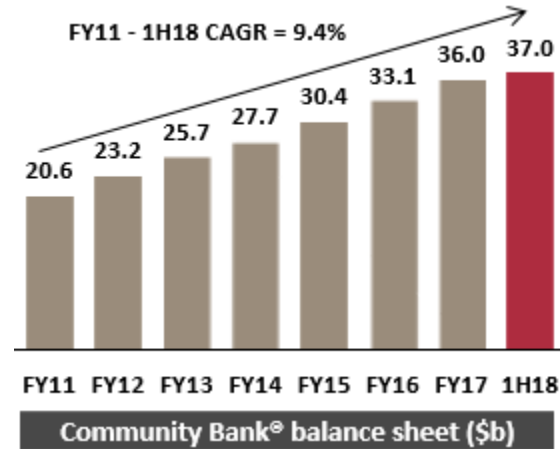
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Source: Company data, APRA statistics December 2017  
 1. Based on APRA statistics (loans to households : owner occupied & investment and housing loans securitised)



# The Community Bank® model

- Over \$183m in community contributions<sup>1</sup> since inception – delivering tangible benefits for these communities and our business
- 320 Community Bank® branches with more than 90 in communities where there is no alternative provider
- Proven, reliable and cost effective distribution strategy

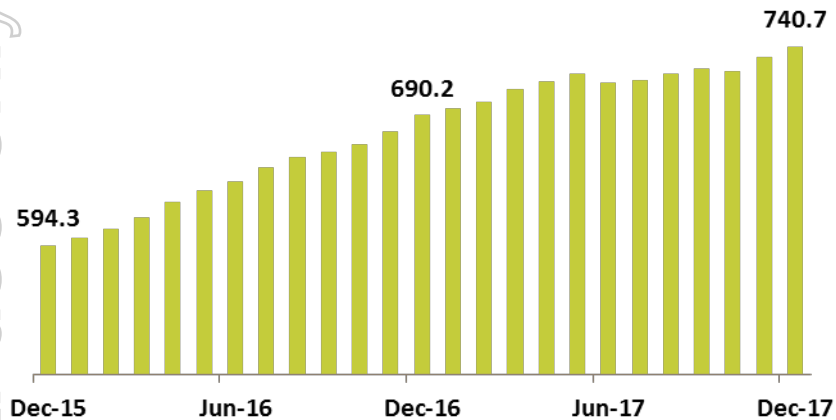


1. Includes total sponsorships, donations and grants

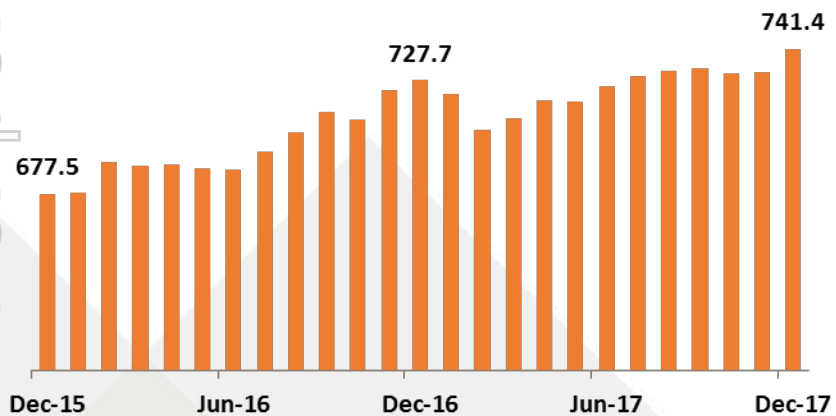
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# Alliance Bank<sup>®</sup> loan & deposit growth

## Alliance Bank<sup>®</sup> loan portfolio balance (\$m)



## Alliance Bank<sup>®</sup> deposit portfolio balance (\$m)



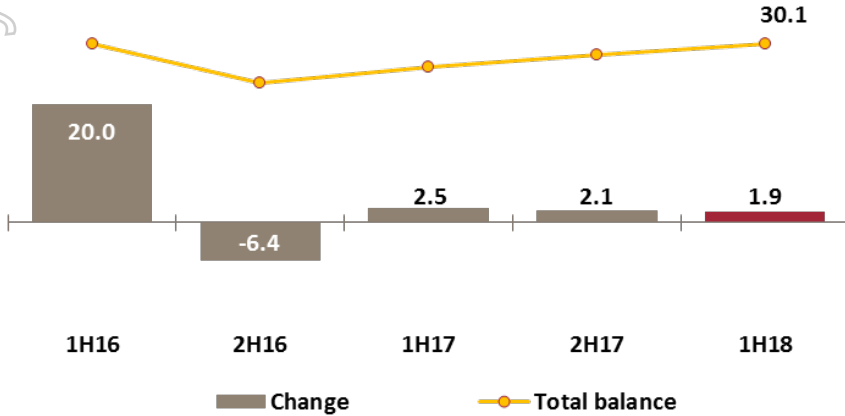
- 7.3% loan portfolio growth for past 12 months
- Innovative social impact loan program
- Two new entrants due for completion in 2018
- Confidentiality agreements with two other credit unions
- 150 employees
- 40,000 customers

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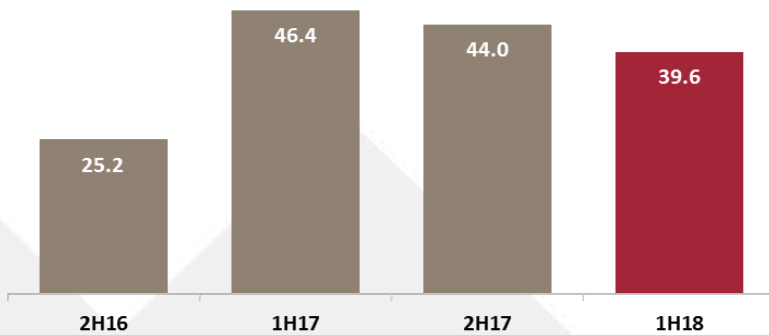
# Homesafe investment property portfolio (based on statutory earnings)

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**Portfolio overlay (\$m)**



**Homesafe statutory income contribution (\$m)**



	1H18 (\$m)	2H17 (\$m)	1H17 (\$m)	2H16 (\$m)
Profit on sale	\$1.0	\$0.3	\$1.4	-\$1.1
Discount	\$10.4	\$9.4	\$9.0	\$8.7
Property valuations	\$30.1	\$36.4	\$38.5	\$11.2
Portfolio overlay	-\$1.9	-\$2.1	-\$2.5	\$6.4
<b>Total income contribution</b>	<b>\$39.6</b>	<b>\$44.0</b>	<b>\$46.4</b>	<b>\$25.2</b>

# Specific provisions

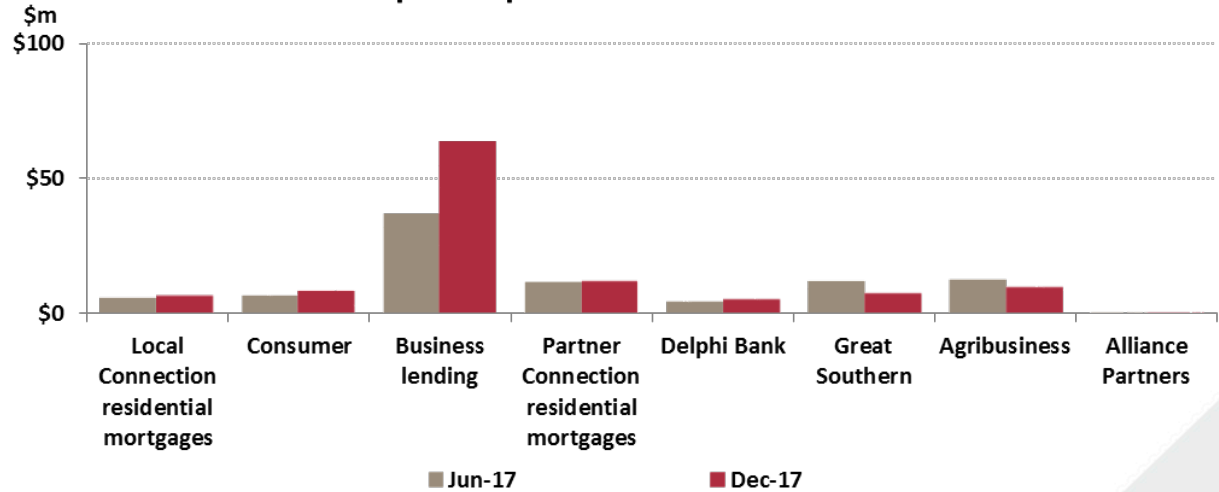
## Specific provision balance (\$m)



Dec 17

Represented by  
→

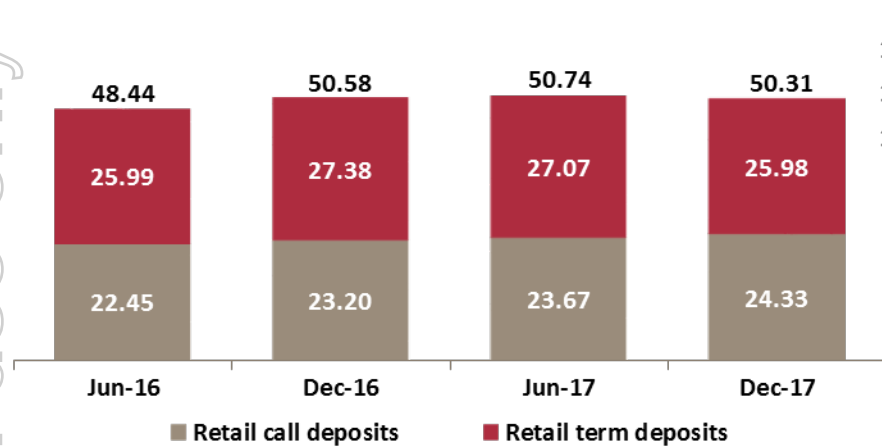
## Specific provisions breakdown



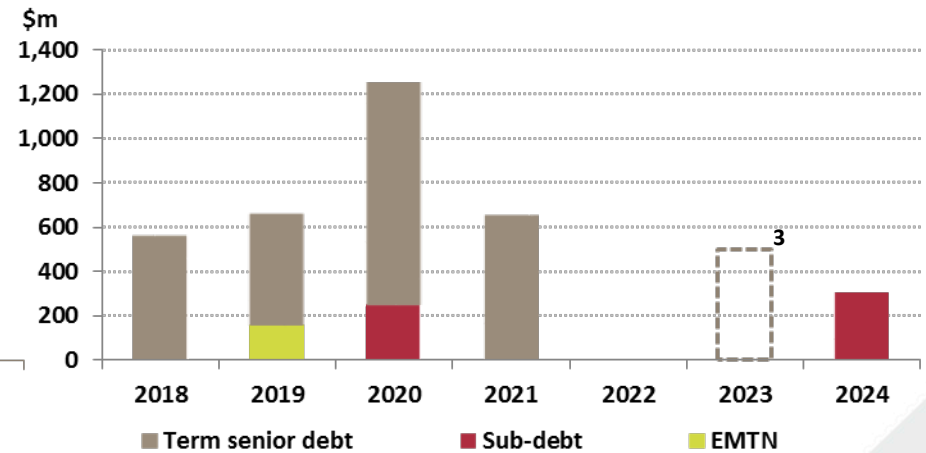
Provision as % of each portfolio's gross loans	Local Connection residential mortgages	Consumer	Business Lending	Partner Connection residential mortgages	Delphi Bank	Great Southern	Agribusiness	Alliance Partners	BEN total
December 2017	0.03%	0.76%	0.86%	0.06%	0.28%	7.63%	0.18%	0.07%	0.19%
June 2017	0.02%	0.58%	0.49%	0.06%	0.22%	9.42%	0.22%	0.06%	0.15%
Portfolio as % of gross loans	39.6%	1.9%	12.2%	33.0%	3.1%	0.2%	9.0%	1.2%	100%

# Funding

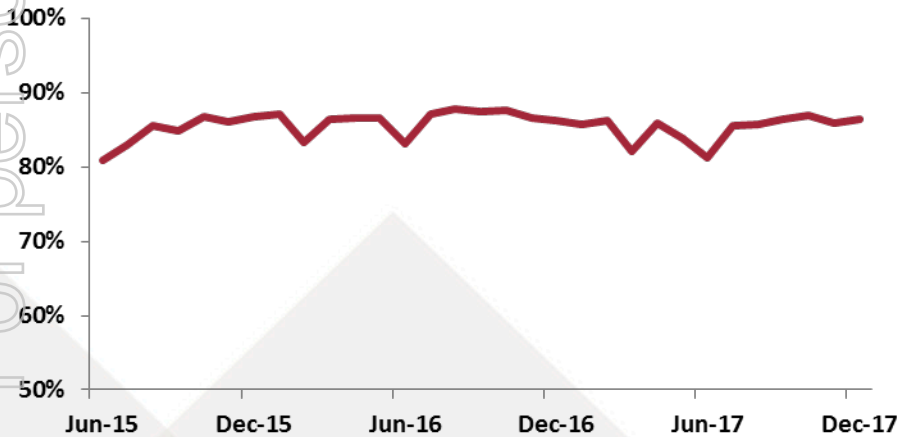
## Retail deposit balances (\$bn)



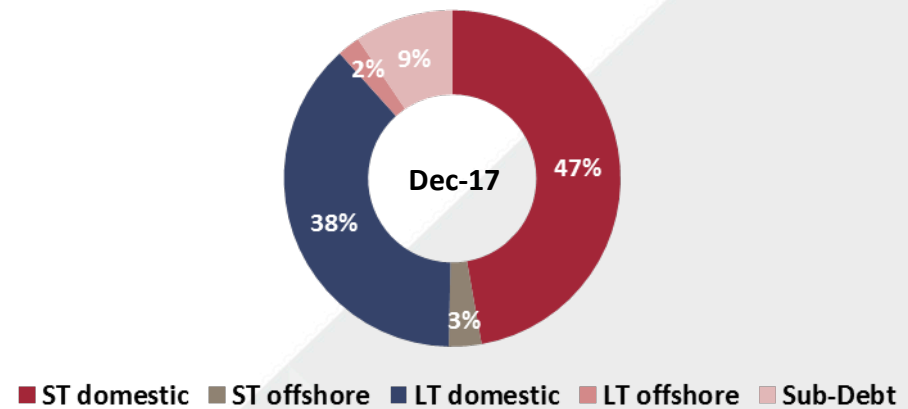
## Term funding maturity profile



## Retail term deposit retention rate<sup>1</sup>



## Wholesale funding composition<sup>2</sup>



Note – Reclassification of some middle market deposits from Retail to Whole has reduced the retail deposit ratios: Dec-16 by 2.7% and June-16 by 2.4%

1. Company data

2. Wholesale funding composition excludes financial markets NCD's

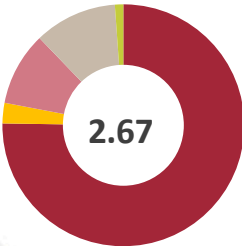
3. \$500m senior unsecured completed in January 2018



# Key capital ratios

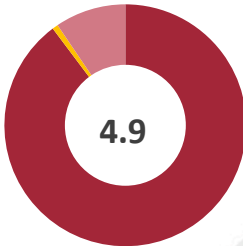
	1H18	2H17	1H17	2H16
Common equity tier 1	8.61%	8.27%	7.97%	8.09%
Additional tier 1	2.37%	2.22%	2.20%	2.31%
Tier 1 Capital	10.98%	10.49%	10.17%	10.40%
Tier 2	2.00%	1.97%	2.03%	1.99%
Total regulatory capital	12.98%	12.46%	12.20%	12.21%
Risk weighted assets (RWA)	\$37.7b	\$38.1b	\$38.3b	\$36.5b

Group Economic Capital<sup>1</sup> (\$b)



- Credit Risk
- Market Risk
- Op Risk
- Business Risk
- Other

Group Standardised Regulatory Capital (\$b)



- Credit Risk
- Market Risk
- Op Risk

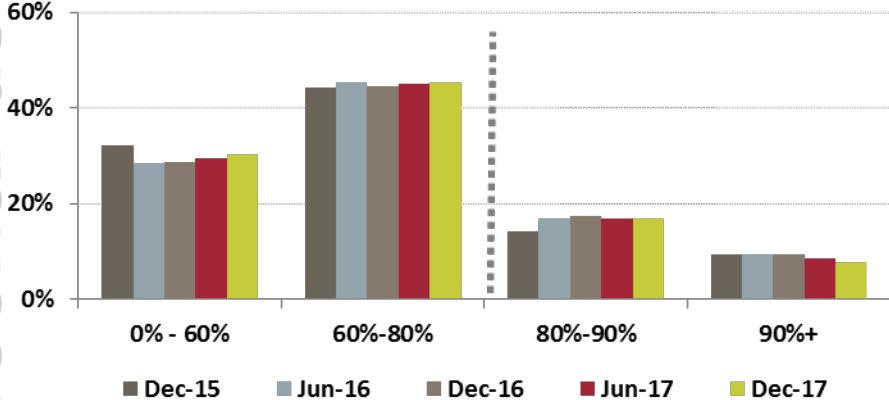
1. Calculated using a combination of internal models and standardised measures

# Residential LVR breakdown at origination

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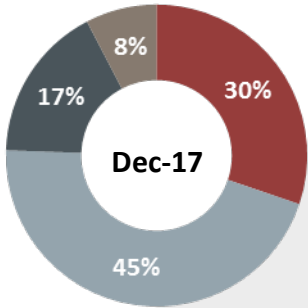
## Residential loan-to-value profile

76% of portfolio with LVR ≤ 80%



## Residential LVR breakdown

0% - 60%	30%
60%-80%	45%
80%-90%	17%
90%+	8%



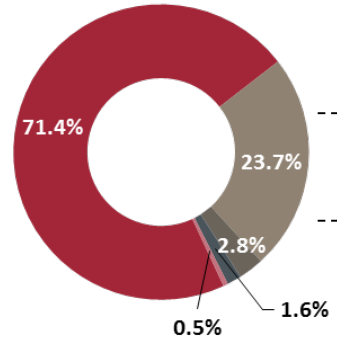
Note - Breakdown of LVRs for by residential mortgages at 31 December 2017 by origination

# Secure and low risk loan portfolios

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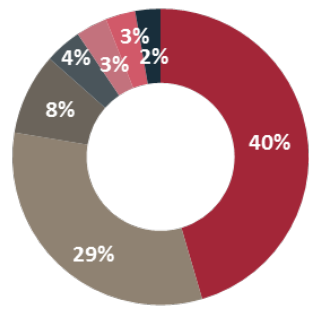
BEN loan composition<sup>1</sup>

- Residential mortgages
- Commercial mortgages
- Listed securities & managed funds
- Unsecured
- Other



Commercial breakdown

- Agri, forestry & fishing
- Rental, hiring & real estate
- Construction
- Health Care & Social assist
- Retail trade
- Finance & insurance
- Accom & food services



- 98.4% secured
- 97.9% secured by mortgages and listed securities
- Residential mortgages
  - average LVR 61%
  - 63% owner occupied
- Margin Lending
  - 78% of portfolios hold ≥ 4 stocks
  - Average LVR 36%

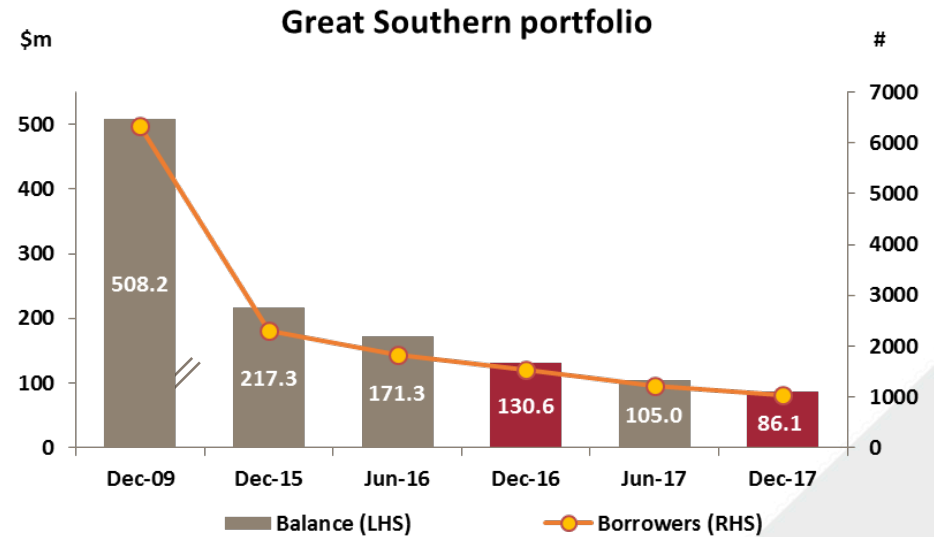
Residential Mortgages <sup>2,3</sup>	Dec-17	Jun-17
Retail mortgages	58%	57%
Third Party mortgages	42%	43%
Owner occupied	63%	62%
Investment	37%	38%
P&I	63%	60%
I/O	37%	40%
Owner occupied P&I	79%	76%
Owner occupied I/O	21%	24%
Investment P&I	38%	34%
Investment I/O	62%	66%
Lo Doc	2%	2%

Residential Mortgages <sup>2,3</sup>	Dec-17	Jun-17
Mortgages with LMI	27%	27%
Average LVR	61%	61%
Average loan balance	\$225k	\$217k
90+ days past due - exc arrangements	0.5%	0.5%
Impaired loans	0.13%	0.1%
Specific provisions	0.03%	0.03%
Loss rate	0.01%	0.01%
Variable	72%	70%
Fixed	28%	30%

1. Loan data represented by security as per page 18 in the 4E  
 2. Loan data represented by purpose  
 3. Excludes Delphi Bank & Keystart data

# Great Southern paying down

- Past due 90 days of \$62.7m<sup>1</sup>, a 21% reduction from 30 June 2017
- Specific provision of \$7.6m<sup>1</sup>, down 36% since 30 June 2017
- Collective provision maintained at \$16.5m
- Proactive recovery on written off loans
- Performing loans of \$28.6m<sup>1</sup> represent 27.9% of the remaining portfolio
- Total borrowers:
  - 1,033<sup>1</sup> (1,542 at 31 December 2016)



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