

14 MAY 2024

## Fitch Affirms Bendigo and Adelaide Bank at 'A-'; Outlook Stable

Fitch Ratings - Sydney - 14 May 2024: Fitch Ratings has affirmed Bendigo and Adelaide Bank Limited's (BEN) Long-Term Issuer Default Rating (IDR) at 'A-' with a Stable Outlook and the Viability Rating (VR) at 'a-'.

### Key Rating Drivers

**Traditional Banking Focus:** BEN's IDRs and senior debt ratings are driven by its VR, which is in line with its implied VR. The ratings reflect the bank's relatively low risk profile due to its focus on residential mortgages. Its consistent and transparent business model supports the financial profile and partly offsets its small franchise.

**Economic Growth to Slow:** We expect the high inflation and rapid interest-rate increases in 2022 and 2023 to result in slower economic growth and an increase in unemployment in Australia through 2024. However, the weakening should be manageable and not result in sharp asset-quality deterioration. We factor in high household leverage into our assessment to reflect households' susceptibility to sharp interest-rate hikes, resulting in a score at the lower end of the 'aa' category.

**Simple and Steady Business Model:** BEN's 'bbb+' business profile score reflects its focus on traditional banking activities, which should keep earnings stable through the cycle. The bank's modest market share acts as a constraint on this factor score. BEN sets prices based on the market in its key segments and has a 2% share of overall system assets and loans.

**Consistent Underwriting Standards:** Underwriting standards have been steady over recent years and, along with its risk controls, should help to limit downside risks. Credit risk, stemming primarily from the loan portfolio, is BEN's main risk.

**Moderate Weakening in Asset Quality:** We expect impaired loans to increase over the next two years as higher interest rates, combined with persistent inflation, reduce borrowers' ability to service their loans. However, a significant increase in impaired loans is unlikely due to the bank's conservative underwriting standards and our expectations for unemployment to remain low. The stable outlook on BEN's 'a' factor score reflects this expectation as well as the sizeable headroom at the current score.

**Competition to Erode Margins:** We expect earnings to be pressured by subdued loan growth and stiff competition for residential mortgages, leading to a lower net interest margin in FY24. BEN's four-year average operating profit/risk-weighted assets (RWA) ratio is likely to remain above 1.5% as loan growth resumes. This implies a score in the 'a' category and is consistent with the 'a-' assigned factor score.

**Strong Capitalisation:** We expect the common equity Tier 1 (CET1) ratio to increase modestly from the 11.2% reported at end-2023 due to internal capital generation. This ratio has improved over the past year, aided by the implementation of the final Basel III requirements in early 2023. BEN's CET1 ratio implies a score in the 'a' category and is consistent with the 'a-' assigned factor score.

**Strong Deposit Funding Base:** BEN's funding profile is likely to stay broadly steady through the next two years, preserving the loan/deposit ratio gains seen in the last two years. The bank's average loan-to-customer deposits ratio over four years is 120%, the best among its peer group. BEN depends moderately on wholesale funding, which it manages effectively. We expect the bank to handle the refinancing of its term-funding facility without difficulty.

## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

The VR and Long-Term IDR may be downgraded if a combination of the following were to occur:

- the four-year average of the stage 3 loans/gross loans ratio increases to above 2.5% for a sustained period (FYE23: 1.2%);
- the four-year average of the operating profit/RWA ratio declines below 1% on a sustained basis (FYE23: 1.6%); and
- the CET1 ratio falls below 10% (11.2% at 1H24) without a credible plan to raise it back above this level.

The VR, Long-Term IDR and senior unsecured debt ratings are also sensitive to an increase in BEN's risk profile, such as a loosening of underwriting standards or risk controls in the pursuit of growth, although that appears unlikely in the current environment.

A downgrade of the Short-Term IDR appears unlikely in the near term, as it would require the Long-Term IDR to be downgraded by at least two notches to 'BBB' and the funding and liquidity score to be lowered by at least two notches to 'bbb'.

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of the Long-Term IDRs, VR and senior debt ratings appears unlikely over the next two years, as it would require both a significant improvement in BEN's market position so that the business profile is consistent with a factor score of 'a-', as well as a significant and sustained improvement in its financial profile.

The Short-Term IDR may be upgraded without an upgrade of the Long-Term IDR if the funding and liquidity score was upgraded by one notch to 'a'.

## OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

### Short-Term IDR

The Short-Term IDR of 'F2' is the lower of the two options available at a Long-Term IDR of 'A-', as the funding and liquidity score of 'a-' is not high enough to support the higher option; the threshold is a score of at least 'a'.

### **Senior Unsecured**

The long-term senior unsecured debt ratings are aligned with the Long-Term IDR, consistent with Fitch's *Bank Rating Criteria*.

### **Subordinated**

BEN's subordinated Tier 2 debt is rated two notches below its anchor rating, the VR, which is consistent with the base case in Fitch's *Bank Rating Criteria*. The two notches below the anchor rating are for loss severity, with non-performance risk captured adequately by the VR. None of the reasons for alternative notching from the anchor rating, as described in the criteria, are present.

### **Government Support Rating**

The Government Support Rating (GSR) of 'bb' reflects the moderate potential of support from the authorities, if needed, in light of BEN's modest market share and role in the banking system.

## **OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES**

### **Short-Term IDR**

A downgrade of the Short-Term IDR appears unlikely in the near term, as it would require the Long-Term IDR to be downgraded by at least two notches to 'BBB' and the funding and liquidity score to be lowered by at least two notches to 'bbb'.

The Short-Term IDR may be upgraded without an upgrade of the Long-Term IDR if the funding and liquidity score was upgraded by one notch to 'a', although this is unlikely to occur over the next two years.

### **Senior Unsecured**

The long-term senior unsecured debt ratings will move in line with BEN's Long-Term IDR.

### **Subordinated**

The subordinated debt ratings will move in line with BEN's VR.

### **Government Support Rating**

A downgrade of Australia's sovereign rating of 'AAA'/Stable or a weakening in propensity for the authorities to provide support may result in Fitch lowering BEN's GSR. Conversely, an increase in the probability of support from the authorities as a result of, for example, increased systemic importance, may lead to a higher GSR for BEN.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

### ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/topics/esg/products#esg-relevance-scores](http://www.fitchratings.com/topics/esg/products#esg-relevance-scores)

### Fitch Ratings Analysts

#### **James Neale**

Associate Director

Primary Rating Analyst

+61 2 8256 0343

Fitch Australia Pty Ltd Suite 15.01, Level 15 135 King Street Sydney 2000

#### **Jack Do**

Director

Secondary Rating Analyst

+61 2 8256 0355

#### **Heakyu Chang**

Senior Director

Committee Chairperson

+822 3278 8363

### Media Contacts

#### **Peter Hoflich**

Singapore

+65 6796 7229

[peter.hoflich@thefitchgroup.com](mailto:peter.hoflich@thefitchgroup.com)



#### **Leslie Tan**

Singapore








+65 6796 7234

[leslie.tan@thefitchgroup.com](mailto:leslie.tan@thefitchgroup.com)

### Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Bendigo and Adelaide Bank Limited	LT IDR	A- 	Affirmed	A- 
	ST IDR	F2	Affirmed	F2
	Viability	a-	Affirmed	a-
	Government Support	bb	Affirmed	bb
• senior unsecured	LT	A-	Affirmed	A-
• subordinated	ST	BBB	Affirmed	BBB
• senior unsecured	ST	F2	Affirmed	F2

### RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

### Applicable Criteria

[Bank Rating Criteria \(pub.15 Mar 2024\) \(including rating assumption sensitivity\)](#)

### Additional Disclosures

[Solicitation Status](#)

[Endorsement Status](#)

## **DISCLAIMER & DISCLOSURES**

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its

reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see [Best- and Worst-Case Measures](#) under the Rating Performance page on Fitch's website.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic

publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2024 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

## **Endorsement policy**

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.