FitchRatings

Banks
Retail & Consumer Banks
Australia

Bendigo and Adelaide Bank Limited

Update

Ratings

Foreign Currency	
Long-Term IDR	A-
Short-Term IDR	F2
Viability Rating	a-
Government Support Rating	bb

Sovereign Risk	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA

Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Fitch Affirms Bendigo and Adelaide Bank at 'A-'; Outlook Stable (May 2024)

Global Economic Outlook - September 2024 (September 2024)

DM100 Banks Tracker (July 2024)

Challenges Increasing for Smaller Banks in Australia and New Zealand (June 2024)

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Key Rating Drivers

Traditional Banking Focus: The Issuer Default Ratings (IDRs) and senior debt ratings of Bendigo and Adelaide Bank Limited (BEN) are driven by its Viability Rating (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. BEN's consistent and transparent business model supports the financial profile and partly offsets its small franchise.

Subdued Operating Environment: Fitch Ratings expects modest economic growth in Australia in 2025 and an increase in unemployment. However, we believe conditions will remain manageable and not result in a sharp deterioration in asset quality. We factor in high household leverage into our assessment to reflect households' susceptibility to sharp interest-rate hikes, resulting in an operating environment 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 throughout 2024 and into early 2025 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 substantial headroom at the factor 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 (NIM) in the financial year ending 30 June 2025 (FY25). BEN's four-year average operating profit/risk-weighted asset (RWA) ratio is likely to remain above 1.5% as loan growth picks up. 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 11.3% reported at FYE24, 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/customer deposits ratio over four years is 116%, 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 (FYE24: 1.1%);
- the four-year average of the operating profit/RWA ratio declines below 1% on a sustained basis (FYE24: 1.9%); and
- the CET1 ratio falls below 10% (11.3% at FYE24) 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 were upgraded by one notch to 'a'.

Other Debt and Issuer Ratings

Rating Level	Rating
Senior Unsecured: Long Term	A-
Senior Unsecured: Short Term	F2
Subordinated: Long Term	BBB

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'.

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 were 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 are aligned with the Long-Term IDR, consistent with Fitch's *Bank Rating Criteria*.

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

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.

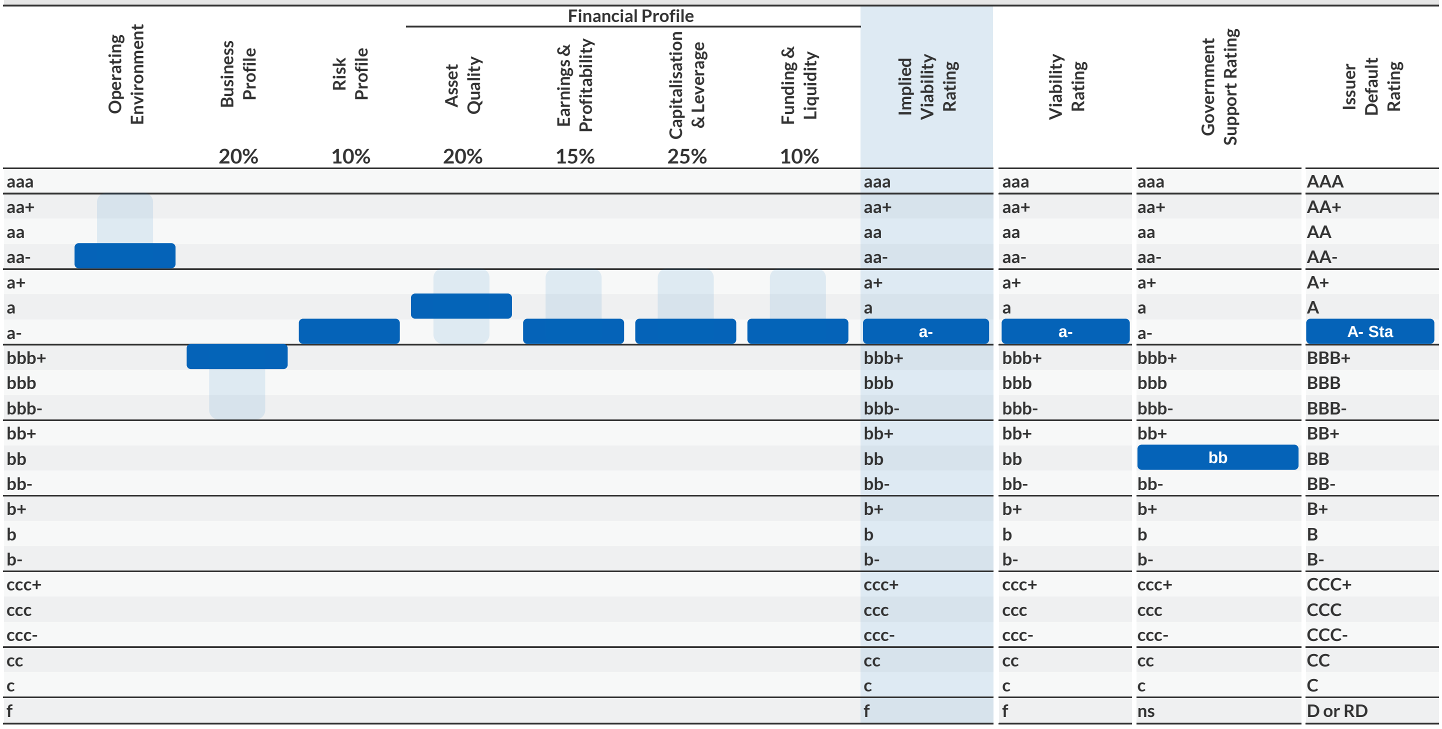
The subordinated debt ratings will move in line with BEN's VR.

Ratings Navigator

Bendigo and Adelaide Bank Limited

ESG Relevance:

Banks
Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

Financials

Summary Financials

	30 Jun 24		30 Jun 23	30 Jun 22	30 Jun 21
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(AUDm)	(AUDm)	(AUDm)	(AUDm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	1,085	1,637.6	1,642.0	1,421.7	1,422.9
Net fees and commissions	117	176.8	170.1	179.4	192.0
Other operating income	134	202.2	84.6	89.3	170.3
Total operating income	1,336	2,016.6	1,896.7	1,690.4	1,785.2
Operating costs	801	1,209.5	1,138.3	1,016.2	1,013.5
Pre-impairment operating profit	535	807.1	758.4	674.2	771.7
Loan and other impairment charges	7	9.9	33.6	-27.2	18.0
Operating profit	528	797.2	724.8	701.4	753.7
Other non-operating items (net)	n.a.	n.a.	n.a.	n.a.	n.a.
Tax	167	252.2	227.8	213.3	229.7
Net income	361	545.0	497.0	488.1	524.0
Other comprehensive income	-14	-21.5	-73.4	-15.1	31.1
Fitch comprehensive income	347	523.5	423.6	473.0	555.1
Summary balance sheet					
Assets					
Gross loans	53,557	80,853.6	78,812.6	77,894.2	72,261.6
- Of which impaired	544	821.6	763.6	791.8	858.6
Loan loss allowances	189	286.0	286.3	283.8	341.0
Net loans	53,368	80,567.6	78,526.3	77,610.4	71,920.6
Interbank	187	282.9	123.9	188.0	173.4
Derivatives	4	5.9	9.2	59.9	59.1
Other securities and earning assets	8,682	13,107.6	10,596.4	12,016.3	6,865.8
Total earning assets	62,242	93,964.0	89,255.8	89,874.6	79,018.9
Cash and due from banks	1,058	1,596.6	6,560.0	2,969.8	5,348.2
Other assets	1,740	2,627.3	2,663.9	2,399.3	2,210.1
Total assets	65,040	98,187.9	98,479.7	95,243.7	86,577.2
Liabilities					
Customer deposits	47,650	71,934.9	70,555.5	68,388.6	57,915.7
Interbank and other short-term funding	5,040	7,608.1	6,945.6	6,374.1	16,615.3
Other long-term funding	6,372	9,619.5	12,391.0	12,253.1	4,167.1
Trading liabilities and derivatives	9	13.3	17.4	34.8	45.3
Total funding and derivatives	59,070	89,175.8	89,909.5	87,050.6	78,743.4
Other liabilities	785	1,184.6	901.3	665.2	666.5
Preference shares and hybrid capital	526	793.5	818.2	816.0	813.8
Total equity	4,659	7,034.0	6,850.7	6,711.9	6,353.5
Total liabilities and equity	65,040	98,187.9	98,479.7	95,243.7	86,577.2
Exchange rate		USD1 = AUD1.509662	USD1 = AUD1.508296	USD1 = AUD1.451589	USD1 = AUD1.330141

Source: Fitch Ratings, Fitch Solutions, Bendigo and Adelaide Bank Limited

Key Ratios

	30 Jun 24	30 Jun 23	30 Jun 22	30 Jun 21
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.1	1.9	1.7	1.9
Net interest income/average earning assets	1.9	1.9	1.7	1.9
Non-interest expense/gross revenue	60.0	60.0	60.1	56.8
Net income/average equity	7.9	7.4	7.4	8.7
Asset quality				
Impaired loans ratio	1.0	1.0	1.0	1.2
Growth in gross loans	2.6	1.2	7.8	10.6
Loan loss allowances/impaired loans	34.8	37.5	35.8	39.7
Loan impairment charges/average gross loans	0.0	0.1	0.0	0.0
Capitalisation				
Common equity Tier 1 ratio	11.3	11.3	9.7	9.6
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	n.a.	n.a.	11.8
Tangible common equity/tangible assets	5.3	5.1	5.2	5.6
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	12.5	11.2	12.4	13.4
Net impaired loans/Fitch Core Capital	n.a.	n.a.	n.a.	10.9
Funding and liquidity				
Gross loans/customer deposits	112.4	111.7	113.9	124.8
Gross loans/customer deposits + covered bonds	109.3	109.8	n.a.	n.a.
Liquidity coverage ratio	138.0	131.0	134.3	136.9
Customer deposits/total non-equity funding	80.0	77.8	77.9	72.8
Net stable funding ratio	116.4	121.5	129.2	133.4

Source: Fitch Ratings, Fitch Solutions, Bendigo and Adelaide Bank Limited

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	A+ to A-
Actual jurisdiction D-SIB GSR	a
Government Support Rating	bb
Government ability to support D-SIBs	
Sovereign Rating	AAA/ Stable
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Neutral
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Negative
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

Fitch believes there is a moderate probability of government support for BEN because of the bank's low systemic importance, meaning the government is less likely to provide support, compared to the major banks, to prevent default on BEN's senior obligations. Nonetheless, we think the sovereign has a strong ability to support the system in general, as reflected in Australia's sovereign rating of 'AAA'/Stable. The authorities have shown a historical propensity to support senior creditors of banks. This was demonstrated during the global financial crisis in 2008 through the implementation of a government guarantee for senior bondholders, and reinforced by the regulatory approach to loss-absorbing capital, which does not have a senior bail-in instrument.

Environmental, Social and Governance Considerations

FitchRatings

Bendigo and Adelaide Bank Limited

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Bendigo and Adelaide Bank Limited has 5 ESG potential rating drivers

- Bendigo and Adelaide Bank Limited has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
not a rating driver	5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

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.

SOLICITATION & PARTICIPATION STATUS

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For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.