CREDIT OPINION
18 December 2024

Update

Send Your Feedback

RATINGS

Bendigo and Adelaide Bank Limited	
Domicile	Bendigo, Victoria, Australia
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Baa1
Type	Senior Unsecured - Dom Curr
Outlook	Positive
Long Term Deposit	Baa1 / A1
Type	LT Bank Deposits - Fgn Curr / Dom Curr
Outlook	Positive

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Bendigo and Adelaide Bank Limited

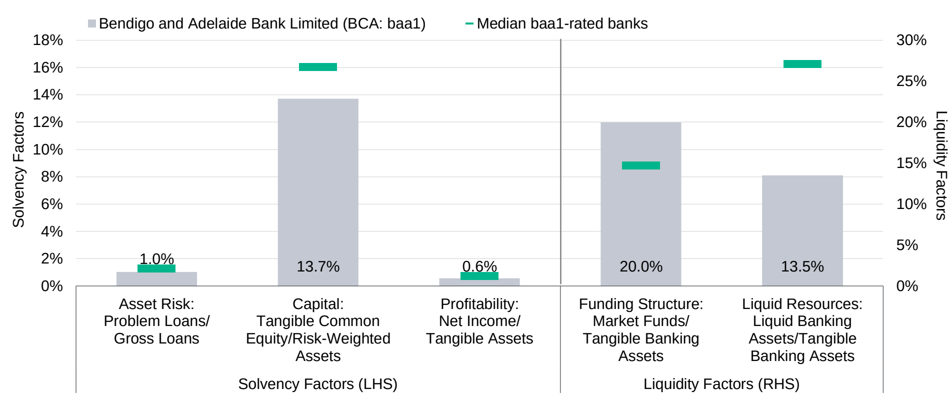
Update following outlook change

Summary

On 29 November we changed Bendigo and Adelaide Bank Limited's (BEN) ratings outlook to positive from stable, reflecting the bank's improving profitability, higher levels of capital adequacy and increasing levels of customer funding its funding mix. At the same time we affirmed BEN's A1 long-term local currency deposit and Baa1 senior debt ratings reflecting the bank's strong credit profile underpinned by its low risk residential mortgage portfolio and a high level of capital relative to requirements. BEN has a strong funding and liquidity position, characterized by a high proportion of stable retail deposits and good access to wholesale funding markets.

We expect loan delinquencies will rise only modestly in 2025, supported by a strong employment conditions. We expect the bank's profitability, measured on a return on assets basis, will remain relatively stable, despite the prospect of interest rate cuts and a rise in credit costs. Its regulatory capital ratios will gradually decline to within BEN's target operating range as interest rates decline, competition remains strong and the bank continues to invest.

Exhibit 1
Rating Scorecard - Key Financial Metrics



Source: Moody's Ratings

Credit strengths

- Well-developed franchise, focused on good customer service and banking in metropolitan areas and regional towns.
- Very strong asset quality, with a low risk residential mortgage portfolio.
- Strong capital adequacy bolstered by the use of more conservative standardized risk weights.
- Strong funding structure supported by a stable deposit base.

Credit challenges

- Ongoing asset quality risks in a challenging economic environment.

Rating outlook

BEN's ratings have a positive outlook reflecting the bank's improving profitability, higher levels of capital adequacy and increasing levels of customer funding its funding mix.

Factors that could lead to an upgrade

- Profitability (measured as net income as % of tangible assets) remains above 0.5%
- Moody's capital ratio (measured as tangible common equity as a % of RWA) remains above 12.5%.
- The bank maintains high levels of stable customer funding with only moderate use of market funding.

Factors that could lead to a downgrade

- Ben outlook could return to stable if the banks capital ratio (measured as tangible common equity as a % of RWA) falls to below 12%
- Profitability (measured as % of tangible assets) falls bellow 0.5%
- An increase in the level of wholesale funding such that market funds as a % of tangible banking assets rises to 25%.

Key indicators

Exhibit 2

Bendigo and Adelaide Bank Limited (Consolidated Financials) [1]

	06-24[2]	06-23[2]	06-22[2]	06-21[2]	06-20[2]	CAGR/Avg.[3]
Total Assets (AUD Million)	98,187.9	98,466.3	95,224.6	86,571.7	76,007.3	6.6[4]
Total Assets (USD Million)	65,574.9	65,544.1	65,481.1	64,993.8	52,331.1	5.8[4]
Tangible Common Equity (AUD Million)	5,215.1	5,091.5	4,914.2	4,707.6	4,247.6	5.3[4]
Tangible Common Equity (USD Million)	3,482.9	3,389.2	3,379.2	3,534.2	2,924.5	4.5[4]
Problem Loans / Gross Loans (%)	1.0	1.0	1.0	1.2	1.7	1.2[5]
Tangible Common Equity / Risk Weighted Assets (%)	13.7	13.4	11.6	11.6	11.1	12.3[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	14.9	14.2	15.2	17.0	24.0	17.1[5]
Net Interest Margin (%)	1.7	1.8	1.6	1.8	1.9	1.7[5]
PPI / Average RWA (%)	2.2	2.0	1.6	2.0	1.2	1.8[6]
Net Income / Tangible Assets (%)	0.6	0.6	0.5	0.6	0.3	0.5[5]
Cost / Income Ratio (%)	58.8	57.3	59.7	56.8	71.8	60.9[5]
Market Funds / Tangible Banking Assets (%)	20.0	23.5	23.8	23.8	23.1	22.8[5]
Liquid Banking Assets / Tangible Banking Assets (%)	13.5	16.1	14.5	13.1	10.1	13.5[5]
Gross Loans / Due to Customers (%)	118.2	119.1	121.1	124.7	128.8	122.4[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

Profile

Bendigo and Adelaide Bank Limited (BEN) is an Australian bank domiciled in the state of Victoria. As of 30 October 2024, BEN was the sixth largest ADI in terms of total resident assets, with a 2.2% market share of loans and a 2.4% market share of deposits. BEN had total consolidated assets of AUD 98.2 billion as of 30 June 2024, and its loan portfolio was comprised of 75% residential mortgages, 21% commercial lending and 2% consumer lending.

Together with its subsidiaries and associate companies, BEN provides a range of banking and financial services, including retail banking, business banking, third-party mortgage origination, margin lending, commercial finance, fund management and superannuation, foreign exchange and trustee services. BEN reports its business activities through the following three segments: Consumer Banking, Business Banking and Agribusiness.

Please refer to the Issuer Profile to read about BEN and the Australian Banking System Profile to read about the Australian banking system.

Detailed credit considerations

Earnings expected to improve over the long-term driven by technology investment spend

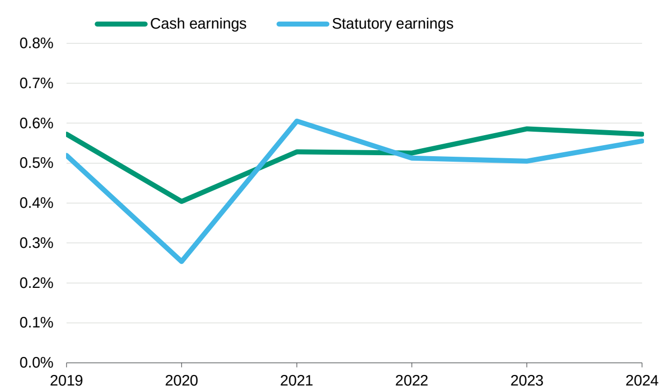
We expect BEN's profitability will remain relatively stable over the next 12-months, despite a possible reduction in official interest rates and rising credit costs. Longer term, BEN's digital and technological investments should improve its operating efficiency which will benefit underlying profitability.

BEN reported AUD562 million cash earnings in FY2024, down 3% from the prior corresponding period, representing return on assets of 0.57% (Exhibit 3). Cash earnings were impacted by a slip in margin and increased operating expenses, but partially offset by reduced credit expense. Its statutory profit was up 10% due to upward revaluations of its Homesafe portfolio. The bank reported a net interest margin of 1.90% in FY2024, down 4bps from FY2023, but up 7bps from 1H24, with its exit NIM in June 2024 increasing to 1.94%, as the bank benefited from its replicating portfolio and less competitive environment. Operating expenses were up 5.8% year-on-year in FY2024, reflecting the impact of wage and cost inflation. The bank continued to invest in technology to streamline and automate its operations. Its reported cost-to-income (CTI) ratio deteriorated by 260bps to 57.5% in FY2024. BEN reported a small credit impairment charge of AUD9.9 million for the year, a reversal from a net provision release of AUD0.9 million for FY2024 (Exhibit 4).

We expect NIMs will remain relatively stable for Australian banks, even as we are likely to enter a less restrictive monetary policy cycle. NIMs would still be supported by the banks' replicating portfolios, which are synthetic hedges on capital and low interest rate sensitive deposits. This is because deposit hedges are rolling over a 5-year period and therefore there are still parts of the portfolio hedged at low interest rates, which when they roll will provide a higher yield, although this will be of a diminishing benefit in 2026 and beyond. Furthermore lower interest rates and a lower proportion of fixed-rate mortgages could result in reduced mortgage refinancing activity and with a lower spread between interest rates charged on existing loans and new loans: this would likely reduce the negative impact of lower interest rates.

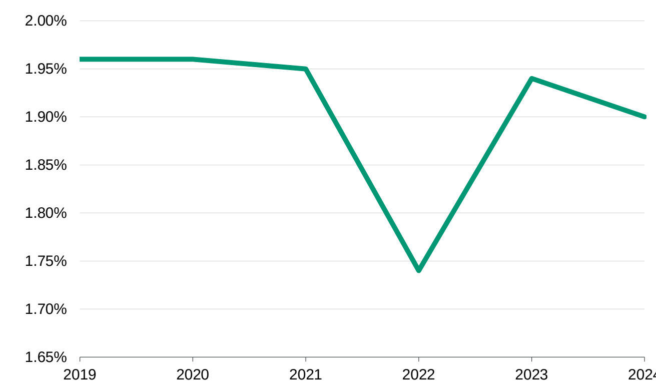
Longer-term, we believe BEN's profitability will be supported by its technological investments aimed at improving its digital capabilities and infrastructure. Specifically, BEN has reduced the number of core banking systems and IT applications, increased its customers usage of active e-banking and will implement a new digital home loan origination platform. The success of BEN's "Up" banking platform could play a key role in the longer-term profitability of BEN as the technology can be replicated in the bank's core applications and processes providing efficiency benefits. In terms of franchise value Up has been successful in growing digital retail deposits. Importantly Up has shifted BEN's customer demographic, with a greater distribution towards younger customers that are savers and also potential future borrowers. The benefits of technology in terms of providing operating efficiencies is a positive for smaller scale, less complex banks like BEN, which has resulted in the profitability gap (based on ROA) between BEN and the major banks declining significantly over time.

Exhibit 3
Profitability remains stable
Return on assets



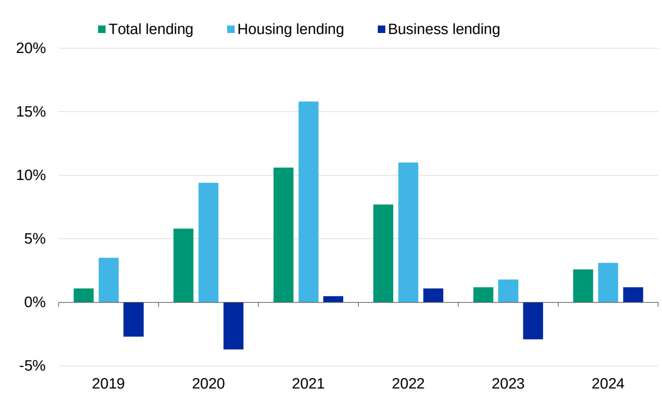
Source: Bank disclosures, Moody's Ratings

Exhibit 4
Margin slipped as competition increased throughout the year
Net interest margin



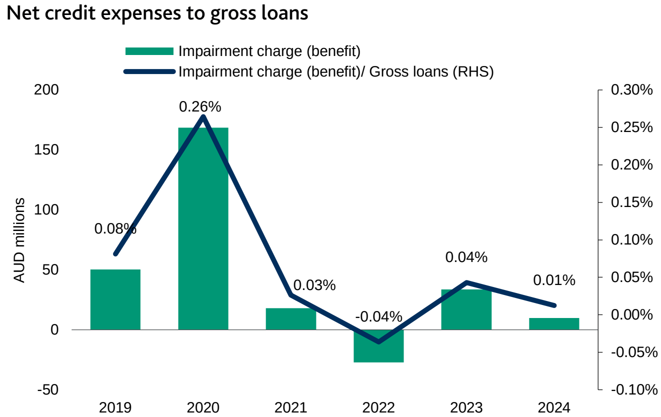
Source: Bank disclosures, Moody's Ratings

Exhibit 5
Loan growth is expected to be moderating
Annual growth rates by loan type



Source: Bank disclosures, Moody's Ratings

Exhibit 6
Loan impairment charge weighs on earnings following provision reversals in 1H2023
Net credit expenses to gross loans



Source: Bank disclosures, Moody's Ratings

Asset risk to rise modestly amid challenging economic conditions

BEN's asset quality is very strong. The bank's non-performing loans ratio was 1.02% as at June 2024 and its asset quality profile is underpinned by its low risk residential mortgage lending portfolio that is likely to limit ultimate credit losses.

BEN's residential mortgage exposures are of relatively high quality, with a portfolio level non-performing loans ratio of 0.54% as at June 2024. The quality of these exposures is reflected in the portfolio's low average loan to value ratio, good geographical distribution and low exposure to high debt-to-income borrowers. While borrower stress could rise over the next 12 months, given cost of living pressures for households and high interest rates, we expect BEN's asset quality will remain strong given the lower risk characteristics of its loan portfolio.

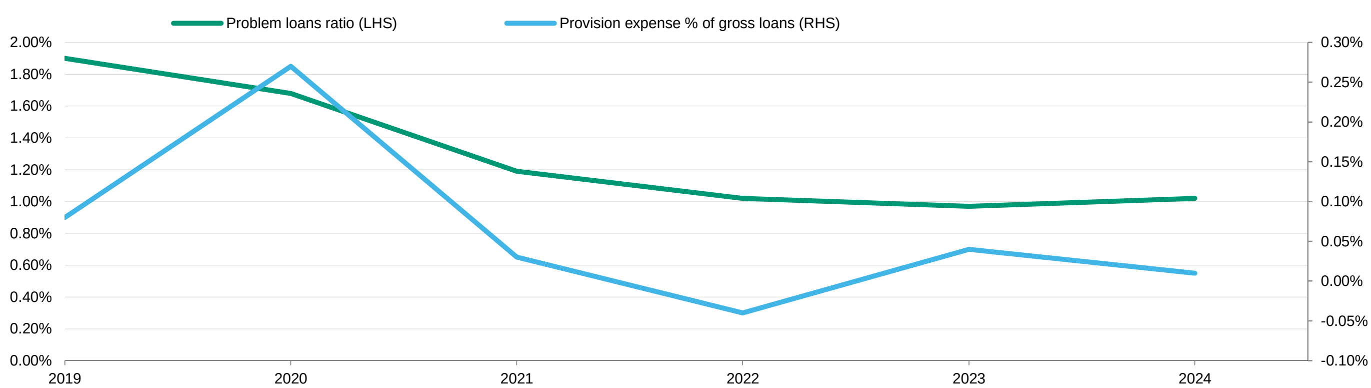
The banks loan book is predominantly exposed to residential mortgage lending, which represents 75% of total loans. BEN's non-mortgage book is predominantly lending to medium sized and small business (13%) and agriculture lending (8%) consumer lending is low at only 2% while the remaining 2% is against secured margin lending.

BEN's mortgage portfolio is high quality, reflected by its high weighting to owner-occupiers (75%), low levels of first home buyers (16%) and low levels of high loan-to-value mortgages. The average LVR is low at 53%, with the average LVR of new loans being low at 61%. Exposure to fixed-rate loans has reduced from 36% to 19%, with no significant performance deterioration. High debt-to-income borrower origination is low at 2% compared to 5% for the system average.

The business loan portfolio experienced a 46 basis point decrease in arrears to 2.06% over the fiscal year to June 2024, while the Agribusiness portfolio saw an increase of 40 basis points to 2.31% as of June 2024. BEN's loss provisioning is good and the bank maintains total loan loss provisions equivalent to 46% of NPLs. While this may appear low, it reflects the well-secured nature of the bank's lending exposures, primarily its residential mortgage book.

Exhibit 7

Asset quality performance has been strong, but challenging conditions persist



Source: Bank disclosures, Moody's Ratings

Strong capital position relative to its asset risk profile

BEN's capital position remains strong, its Common Equity Tier 1 (CET1) ratio of 11.32% as of 30 June 2024 was above the board's capital target over 10%. We expect the bank will continue to maintain strong capital levels, although they are likely to decline over time in line with its publicly stated operating range. BEN's regulatory capital ratios benefited from changes in the capital standards, which were designed to make risk-weights more sensitive to higher risk exposures. This resulted in reduction in risk weighted assets for BEN, increasing its CET1 capital ratio by 111 bps.

Bendigo has only a moderate reliance on wholesale funding, reflecting the strength of its deposit franchise

BEN's funding profile is backed by the strength of its deposit base, which has highly stable characteristics leading to only a moderate use of wholesale funding. Customer deposits (deposits from households and businesses) represent 77% of total funding sources and the quality of the deposit book is underpinned by BEN's community bank model, which gives it access to highly stable deposits in under-banked areas.

BEN’s household funding profile (household loans / household deposits) is amongst the best across Australia’s largest lenders, measuring at 73% as at September 2024 and surpasses that of the major banks. The quality of BEN’s deposit book is highlighted in the bank’s Net Stable Funding Ratio disclosures. Among the large Australian banks BEN has the highest proportion of stable deposits within its available stable funding mix at 35%, well above the major bank average of 20%. When including less stable deposits BEN is still superior to its domestic competitors, with stable and less stable deposits representing 68% of available stable funding compared to 53% for domestic peers.

BEN uses a mix of unsecured MTN and secured (RMBS and covered bonds) for its wholesale funding, providing a good term structure. The RMBS funding is also self-liquidating and therefore carries minimal refinancing risk. The bank successfully repaid the remainder of its outstanding term funding facility over fiscal 2024. The strength of BEN's funding profile is reflected in its Net Stable Funding Ratio (NSFR) of 116% reported at for the year ended 30 June 2024.

BEN’s liquidity profile remains strong, with the bank reporting an average daily Liquidity Coverage Ratio (LCR) of 137.8% for the quarter ending June 2024. BEN’s liquidity profile is supported by the stability of its deposit base which results in very low modeled outflows.

Rating is supported by Australia's strong operating environment

Australia's Strong+ macro profile reflects the country's robust economic strength, institutions and governance, and low susceptibility to event risk.

Our baseline scenario forecasts real GDP growth of 1.3% in 2024 before improving to 2.3% in 2025. Alongside this, we foresee a small uptick in the unemployment rate, rising from current levels of 4.1% to 4.2% by 2025. High levels of household debt, along with high inflation and interest rates, remain key economic vulnerabilities. As an indicator, household debt relative to income was high at 186% as of June 2024. The lagging effects of high interest rates exacerbate household and business debt burden.

While we expect unemployment to rise, the projected unemployment rate is still considered low by historical measures, and the banking sectors' focus on low LVRs home loans and small business loans, which are typically secured by residential properties, should provide buffers against asset-quality risk. National average house prices underwent a 9.1% drop from April 2022 to February 2023, but they have since rebounded. Nationally, house prices have risen by 12% between February 2023 and June 2024.

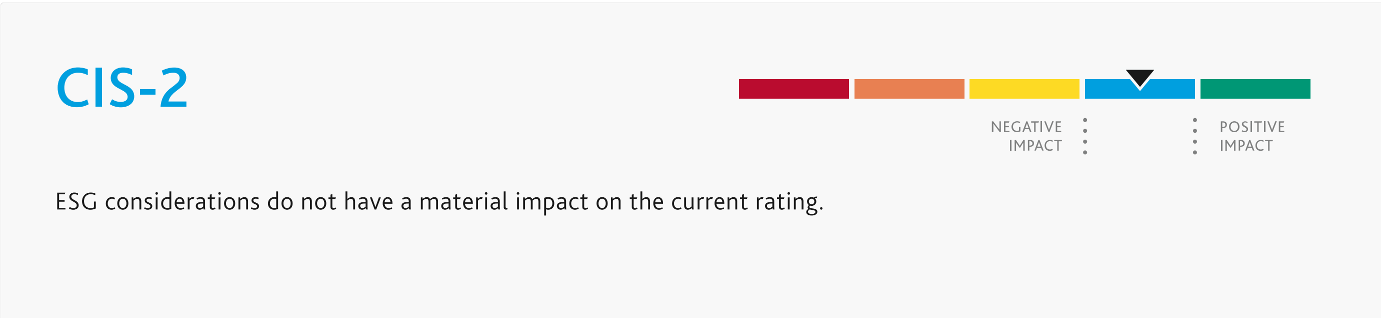
The Australian banking sector is dominated by four major banks, which bolsters their pricing power. Their prices are typically followed by smaller lenders. However, stiff competition for residential mortgages has squeezed margins. This, coupled with an increase in operating costs as a result of the lingering effects of inflation, creates earnings pressure. Nonetheless, it is likely that banks will collectively maintain robust capital buffers.

Australian banks continue to rely on wholesale funding, but the term structure of banks' funding profiles has lengthened. However, banks source a large part of their wholesale funding from overseas, and this exposure to confidence-sensitive forms of funding is their greatest credit weakness. This trend is likely to persist because household savings rates have been declining, with high inflation eroding households' financial buffers.

ESG considerations

Bendigo and Adelaide Bank Limited's ESG credit impact score is CIS-2

Exhibit 8
ESG credit impact score



Source: Moody's Ratings

BEN's **CIS-2** indicates that ESG considerations do not have a material impact on the rating.

Exhibit 9
ESG issuer profile scores

Source: Moody's Ratings

Environmental

BEN faces moderate exposure to environmental risks, in line with peers, primarily because of its portfolio exposure to carbon transition risk as a diversified bank. BEN's climate commitments include having no direct lending exposure to fossil fuel sectors and reducing operational and financed absolute emissions by 50% by 2030.

Social

BEN faces high industrywide social risks from customer relations (regulatory risk, litigation exposure and high compliance standards), and the area of data security and customer privacy. The group also faces industrywide moderate social risks related to societal trends – in particular, digitalization --- and the extent to which such measures could hurt earnings. Significant investment places BEN in a strong position to meet rising digital expectations from customers.

Governance

BEN faces low governance risks. The bank's risk management, policies and procedures are in line with industry best practices and are suitable for its risk appetite. The bank's governance framework follows industry best practice. The bank's Board is comprised almost entirely of independent directors with sub-committees assuring board oversight of most relevant risks.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure analysis

We designate Australia as having an operational resolution regime (ORR) and apply our Advanced LGF analysis, which assumes residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, together with a 5% run off for preferred deposits, a run off 25% for local currency junior deposits and a 100% run off rate for foreign currency junior deposits.

Our LGF analysis indicates that BEN's local currency deposit ratings are likely to face extremely low loss-given-failure due to loss absorption provided by more junior obligations and to the high volume of deposits in its liability structure. This results in a three-notch uplift from the bank's adjusted BCA.

Senior unsecured debt and foreign currency deposits are likely to face a moderate loss-given-failure, which results in no ratings uplift from the bank's BCA.

Government support considerations

Potential for government support is low. BEN's Baa1 global-scale senior debt ratings do not incorporate any ratings uplift from the bank's BCA.

Counterparty Risk (CR) Assessment and Counterparty Risk Ratings (CRR)

BEN's CR Assessments are A1(cr)/Prime-1(cr) and CRRs are A1/Prime-1. The long-term CR Assessments and CRRs are three notches above the bank's adjusted BCA of baa1. The uplift reflects the buffer against default provided to the operating obligations by substantial amount of debt and deposits.

About Moody's scorecard

Our scorecard is designed to capture, express and explain in summary form our rating committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees, and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 10
Rating Factors

Macro Factors						
Weighted Macro Profile	**Strong +**	**100%**				

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.0%	aa3	↔	a2	Expected trend	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	13.7%	a2	↔	a3	Expected trend	
Profitability						
Net Income / Tangible Assets	0.6%	baa2	↔	baa3	Expected trend	
Combined Solvency Score		a2		a3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	20.0%	a3	↔	baa1	Expected trend	Deposit quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	13.5%	ba1	↔	baa1	Quality of liquid assets	
Combined Liquidity Score		baa2		baa1		
Financial Profile				a3		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aaa		
BCA Scorecard-indicated Outcome - Range				a2 - baa1		
Assigned BCA				baa1		
Affiliate Support notching				0		
Adjusted BCA				baa1		

Balance Sheet	**in-scope (AUD Million)**	**% in-scope**	**at-failure (AUD Million)**	**% at-failure**
Other liabilities	15,282	15.9%	29,489	30.6%
Deposits	71,935	74.7%	57,728	60.0%
Preferred deposits	32,371	33.6%	30,752	31.9%
Junior deposits	35,967	37.4%	26,976	28.0%
Senior unsecured bank debt	4,795	5.0%	4,795	5.0%
Dated subordinated bank debt	575	0.6%	575	0.6%
Preference shares (bank)	802	0.8%	802	0.8%
Equity	2,888	3.0%	2,888	3.0%
Total Tangible Banking Assets	96,278	100.0%	96,278	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	37.4%	37.4%	37.4%	37.4%	3	3	3	3	0	a1
Counterparty Risk Assessment	37.4%	37.4%	37.4%	37.4%	3	3	3	3	0	a1 (cr)
Deposits	37.4%	9.4%	37.4%	9.4%	3	3	3	3	0	a1
Senior unsecured bank debt	9.4%	4.4%	9.4%	4.4%	0	0	0	0	0	baa1
Dated subordinated bank debt	4.4%	3.8%	4.4%	3.8%	-1	-1	-1	-1	0	baa2

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a1	0	A1	A1
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1(cr)	
Deposits	3	0	a1	0	A1	Baa1
Senior unsecured bank debt	0	0	baa1	0	Baa1	(P)Baa1
Dated subordinated bank debt	-1	0	baa2	0	Baa2 (hyb)	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 11

Category	Moody's Rating
BENDIGO AND ADELAIDE BANK LIMITED	
Outlook	Positive
Counterparty Risk Rating	A1/P-1
Bank Deposits -Fgn Curr	Baa1/P-2
Bank Deposits -Dom Curr	A1/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
Subordinate -Dom Curr	Baa2 (hyb)
Commercial Paper	P-2
Other Short Term	(P)P-2

Source: Moody's Ratings

REPORT NUMBER 1426170

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454