TRANSCRIPT

BENDIGO AND ADELAIDE BANK 2023 FULL YEAR RESULTS

14 AUGUST 2023

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Sam Miller Good morning, everyone, and welcome to the market briefing for Bendigo and Adelaide Bank 2023 full year results. Let me begin today by acknowledging the traditional owners of the land in which we meet today. Here in Sydney, it's the Gadigal people of the Eora Nation. I pay my respects to their Elders, past and present, and extend my respects to the Aboriginal and Torres Strait Islander people who are present on the call today.

Presenting on the call we have our CEO and Managing Director, Marnie Baker, and our CFO, Andrew Morgan. Our CRO, Taso Corolis, will also be available on the call to take any questions alongside Marnie and Andrew at the end of the presentation. If you'd like to ask a question, please press star one, one. I'll now hand over to Marnie.

Marnie Baker Thanks, Sam, and good morning, everyone. Today we announced another strong result for our bank. Over the course of the last 12-months we have made significant progress on our objectives, both financial and strategic. Financially we have delivered on our key metrics. Cash earnings increased 15.3% to $576.9 million. Return on equity increased 90 basis points to 8.62% and our cost to income ratio improved by 420 basis points to 54.9%.

Strategically we continued to deliver on our transformation agenda with key milestones being achieved across the year. Further, our digital proposition has expanded, demonstrating our expertise in delivering channel diversification in response to customers' needs. I will spend some time taking you through the key elements of these strategic pieces in the coming slides.

It has been another year of continued progress for our organisation and, most importantly, we continue to deliver on our transformation agenda, without losing sight of who we are. We have remained true to our regional roots, we have worked hard to maintain and strengthen our connection with communities, and we will continue to do everything we can to earn, and keep, our customers trust. We are united in our purpose of feeding into the prosperity of our customers and their communities and we are much closer to delivering on our vision to be Australia's bank of choice.

Turning to our divisional results. Cash earnings across both of our divisions rose off the back of an improved revenue environment. Over the year, our largest division, consumer banking, increased cash earnings by 45.9%, driven by a disciplined margin and volume management. The consumer division have navigated a challenging year, amidst high levels of mortgage market competition. Pleasingly, the division has seen growth across both lending and deposits.

For business and agribusiness, cash earnings increased 0.4% on FY22 as an increase in credit provisions offset margin improvements through the year. As mentioned at the first half '23 result, the division has undergone an extensive review, with a new strategy now in place that is designed to deliver growth in our target markets and diversification to our balance sheet. The initial stages of this rebuild has begun and FY24 will be a key year for executing the new strategy.

Throughout our 165-year history, the bank has worked hard to deliver positive outcomes for our customers and their communities. We recognise the challenges facing some borrowers following a period of high inflation and rapid interest rate rises, flowing from the reserve bank official cash rate changes.

The vast majority of borrowers are well-positioned; however, there will be a portion that require our assistance. Our strength of balance sheets, customer focus and flexibility to provide tailored solutions, means we are well-placed to support customers in hardship. Our customer-care-driven mortgage help centre provides assistance to our customers who are experiencing financial difficulties, with the primary objective of keeping customers in their homes.

This approach contributes to our market-leading customer advocacy and results in historical low rates on our mortgage portfolio, remaining one of the lowest in the industry. As customers on fixed-rate loans lead up to, and then reach the end of their term, we are proactively reaching out to them on multiple occasions to discuss their options. Again, with the purpose of supporting them as they transition and retaining them as customers.

We understand the privileged role we play within Australia's communities and our purpose of feeding into prosperity, not off it. Since inception, our community bank model, which operates in over 300 communities across Australia, is on track to return over $320 million in the form of sponsorships and grants to those communities. This year the model is celebrating its 25th anniversary, and we look forward to evolving this model to ensure its success for future generations.

Our overarching strategy continues to be relevant and we are consistently delivering on our key strategic imperatives of reducing complexities through our transformation agenda, investing in capabilities across the organisation, particularly in digital data and risk and telling our story in more ways than ever. We are building the bank of the future today, cementing our position as a true alternative to the larger incumbents.

Four years in, our overarching strategy has produced substantial and important changes for our organisation and clearly demonstrates our ability to execute. I'd like to recap on some of that work that has delivered sustainable and ongoing improvements across the Group.

Since FY19 we have rationalised the number of business models we operate, reduced our core banking systems from eight to four, our brands from 13 to 7 and our IT applications by more than 38%. This has been achieved in tandem with several key corporate transactions completed and partnerships established such as the integration of Ferocia and full ownership of our digital bank, Up, which has now reached over $1.5 billion in deposits and over 700,000 customers.

Also, the divestment of our merchant business and subsequent partnership with Tyro, which provided additional functionality for our business customers and reduced our merchant systems from 7 to 1. And the more recent acquisition of ANZ's margin lending business into leveraged equities and partnership with Qantas, on Qantas Money Home Loans.

We are not only simplifying our business and creating a more flexible organisation, but we are doing this while investing in future capabilities and bringing greater diversification for our business. What pleases me most about our strategic delivery is how open and resilient our organisation has been to change.

Our people, through all parts of our organisation, have experienced greater change than ever before and I want to thank each and every member of the bank's team who work hard every day to deliver good outcomes for our customers.

As part of our journey, we recognised that we required a clearer emphasis on returns, execution and business sustainability. Our sharpened focus on financial returns has been evident over FY23. Our cash earnings have increased strongly, driven by a range of key factors that have had a significant contribution to this result.

A more disciplined approach to cost management has been an area of focus for us, including the continued simplification across our business. The sustained execution since 2019 is clearly observable in our key return metrics, with the exception of the COVID disruption in FY20.

Our business decisions are focused on meeting strong return hurdles. During the year, our disciplined approach enabled the bank to generate better returns in a period of intense competition in residential lending. Our business-as-usual cost increased just 2.4%, as cost management initiatives and simplification benefits from our transformation program, partially offset the impact of higher inflation. Andrew will provide greater detail on the FY23 financial results shortly.

Underpinning our returns profile is our proven ability to execute and it's clear our momentum is building. With foundational work now largely complete, FY23 has been a pivotal year for our strategy, with key deliverables achieved and significant acceleration in progress towards our FY24 target. Our strategic imperative to reduce complexity continues, with three brands and three core banking systems removed from operation.

We have moved more operations to the cloud while removing those that are no longer required from operation. These improvements in technology have allowed us to decommission a physical data centre and related services, providing instant cost benefits to the business. Our capabilities have increased with the commencement of in-app Bendigo products, including the capability to open term deposits online via desktop, in the iOS app and soon, Android.

Our reach has grown, with digital mortgages becoming a key contributor to our residential mortgage portfolio, while Up continues to leverage its NPS of 51.5 and grow its customer base and deposits. Further, we have expanded our margin lending business, one of our highest ROE businesses. We remain confident in achieving our target of delivering a cost-to-income ratio towards 50% and an ROE above our cost of capital.

With the achievements of FY23 firmly embedded in our business, the opportunities for us, as an organisation and for our stakeholders, are significant. Our capability and growth in digital is evident. Last half we highlighted the opportunity we have in front of us and this half has underscored our ongoing strength in lending via our digital channel, with 12% of total settlements now coming – residential lending settlements now coming through our digital channels, up from 8.9% six months ago.

Up Home remains on a steady growth trajectory with a portfolio balance now at $74 million since beta launched 12 months ago. June has been the strongest month of lending growth as Up Home is increasingly recognised as an attractive proposition. 75,000 Upsiders have self-identified savings towards a home totalling in excess of $500 million, which underscores a future growth opportunity.

BEN Express is becoming a key channel for the bank with our Bendigo branded digital home loans delivering over $270 million in settlements since inception, with second half '23 settlements greater than the previous four years combined. Qantas Money Home Loans, which launched in February of this year, has exceeded our expectations and continues to be a significant opportunity for us in the digital space.

Finally, our key digital partner, Tic:Toc, remains the backbone of our digital offering. Providing a seamless customer experience for our digital customers through Up, BEN Express, Qantas Money Home Loans and, of course, through their own brand, which utilises our balance sheet. Digital plays a key part in our vision to be Australia's bank of choice and provides growing diversification, alongside our strong proprietary, and third-party banking network.

Our market-leading digital bank, Up, resonates strongly with the 18 to 35 age target market, delivering regular milestones for the bank and an innovative experience for our customers, or, as we know them, Upsiders. In less than five years since launch in October 2018, Up has attracted over 700,000 Upsiders and over $1.5 billion in deposits. The number of Upsiders is growing 2.6% month on month, largely through word-of-mouth and a with a cost-per-acquisition of less than $50.

Up has a leading – a market-leading NPS of 51.5 and is the highest rating bank app on the App Store and Google Play because it has features that are attractive to a tech-savvy generation of users. It is digital first and plastic optional, saving over 800 kilograms of plastic cards. Up is also helping Upsiders to save money, with features such as Save Up $1,000 and Locked Savers, contributing to just over $100 million in additional savings.

Importantly, it is delivering us the strong pipeline of future home loan customers, with $514 million in identified savings towards a home. Our continued investment in Up is delivering strong growth in engaged customers at an age bracket that positions us well for fulfilling their ongoing banking needs for years to come. We remain excited about the future of Up.

Business sustainability remains integral to our organisation and plays an important role in ensuring we stay true to our purpose. Our customers are experiencing the true multi-channel approach that we have been building. The ability to transact with us through any medium is becoming easier, enabling our customers to have the most seamless experience possible.

This continues to be reflected in our strong NPS scores, which remain well above the industry average. Our 309 community bank branches across Australia have gathered over $32 billion in deposits and $20 billion in lending since inception of the model, enabling more than $320 million in funds to be delivered back into the communities in which we operate and just within the last financial year funding 6,215 much needed local projects.

For shareholders, our ability to generate organic capital is crucial for our business sustainability and why our two key focusses of returns and execution are so important. We remain intensely focussed on improving our financial metrics and delivering a fair return for our shareholders.

Finally, our people are what makes Bendigo and Adelaide Bank so special. Our culture is driven by our 7000 strong workforce and their dedication to our customers and their communities, which is crucial in bringing our purpose to life and driving our overall strategic direction. We continue to invest in the capability of our people and ensuring that their goals and rewards are aligned with all our stakeholders.

Our ESG program of work is well advanced. We have built strong foundational capability across the three disciplines of environment, social, and government, and have achieved results in all three areas. This year we delivered the final year of our inaugural Climate Change Action Plan, having reduced our Scope 1 and 2 emissions by 43% since 2020, and we are making progress towards our climate commitments.

Our refreshed diversity and inclusion strategy, Belonging at Ben, delivered a number of important pieces of work, including the launch of our Reflect Reconciliation Action Plan. We remain committed to proactively managing the risks and incidences of financial crime for our bank's customers and our organisation and have mobilised our Fraud Reduction Program to address the increasing financial crime risk landscape. Our RepTrak reputation score continues to lead all banks and reflects how others view our organisation against seven main drivers of reputation, including performance.

I'm proud of our progress across all three ESG pillars. We have a privileged seat at the table in our communities, enabling us to partner at a grassroots level in building a lasting impact on both social and environmental issues. I'll now pass over to Andrew to run through the financial detail behind the full year result and to expand on the themes I've just outlined.

Andrew Morgan Thanks very much Marnie, and good morning everyone. As Marnie said in her introduction, this is a strong set of financial results. It represents the outcome of a consistent focus through the year on three key financial areas being, managing volumes and margins, improving cost efficiency, and improving returns on investment cases. Through the last six months we've continued to deliver against these priorities. On volumes and margins, we have carefully balanced growth with margin management. As lending competition and the prevalence of cashbacks in the market eased through the second half, we saw an opportunity to compete and write business at returns above cost of capital.

Our focus on cost efficiency has seen cost management efforts continue through the year. This has helped us to contain growth in our business-as-usual costs to a rate below inflation. Given our strong income results, we also took the opportunity to accelerate investment spend which will continue to position us for long-term sustainable growth.

Our focus on improving returns on investment cases means that as our investment in transformation continues, we're ensuring that business cases will generate benefits in future periods. Our profit after capital charge metric has been further embedded into our business at both the Group and divisional level and is an integral part of our pricing and investment decisions.

As a result of our disciplined execution across these areas, we have achieved strong results across our key financial metrics. Return on equity of 8.62% is up 90 basis points, cost to income ratio has fallen to below 55% at 54.9%, and cash earnings per share of 102.1c is 13% higher than the prior year.

Turning now to our results. For the year ended 30 June 2023 we recorded cash earnings after tax of $576.9 million, which was up 15.3% on the prior year. Total income was up 14%, and operating expenses were up 5.9%, with the expense outcome mainly reflecting a higher amount of expensed investment spend and the impact of higher non-lending losses. Credit expenses increased from historic lows to $33.6 million compared to a net writeback on of $27.2 million in the prior year.

Our statutory net profit after tax was up 1.8% on the prior year. I'll walk through the key non-cash items on the following page. On this page you can see the usual two non-cash items and two items which we disclosed in our ASX announcement on 4 August. These items in combination represent the difference between cash earnings and statutory net profit. The first is Homesafe net adjustments, which represent unrealised gains on open contracts minus funding costs and gains on completed contracts which have already been recognised through cash earnings.

The second item is the impact of an impairment of software capitalised in prior years as per our ASX announcement on 4 August. The third item includes a number of restructures undertaken through the year and a consolidation of some of our smaller core banking platforms, also disclosed in our 4 August update. The fourth item represents a number of smaller items, including amortisation of acquired intangibles, acquisition costs, and an impairment of a right-of-use asset. Taking those items into account, statutory net profit after tax of $497 million was up 1.8% on the prior year.

Turning now to total income. Compared to the prior year, income of $1,932.8 million increased 14%. The key driver of this growth was net interest income which was up 17.6% on the prior year. Over the year, on average, residential lending balances grew 3.9% and deposits were up 4.9%. Business and Agri lending was down 0.4% on average. The benefits of this growth were further boosted by a 20-basis-points expansion in net interest margin over the year. Other income, excluding Homesafe, was slightly lower than the prior year. This was mainly due to the non-recurrence of some income streams received in the prior year.

For Homesafe, whilst completions were stronger in the second versus the first half, there was a lower level of completed contracts on the prior year and this led to a $9.7 million reduction in Homesafe income.

I want to spend a few minutes updating you on what's happening in our residential lending book. At our half year results we talked about how momentum in our book had slowed. Pricing in the refinancing market was aggressive and cashbacks were prevalent. As a result of that, we saw limited opportunity to write business at or above our cost of capital, which is a significant focus for us. We also talked about a substantial level of growth in an increasingly important channel for us, being digital mortgages. We talked about the shift in the proportion of business being written across our three key channels of physical, digital, and third party.

So, wind the clock forward to now. Most lenders have ceased cashbacks, and pricing across the sector is returning to more economically rational levels. Through the fourth quarter the opportunity to compete improved, and at the same time we launched the Qantas Home Loan program. So, we were able to write business above system growth in the last quarter. Across our digital mortgage channels, we increased settlement volumes by around 43% in the second half versus the first half. Digital settlements now account for 12% of total settlement.

We also continue to see the proportion of fixed to variable rate mortgages fall. As customers' fixed rate loans mature, our retention rates have improved on the prior half and customers are typically choosing to refinance to a variable rate mortgage. Pleasingly, less than 2% of these customers have an LVR above 80%. So, we enter the new year with positive momentum. Our disciplined approach to writing business at or above cost of capital will continue, and we will seek to grow above system so long as the economics make sense.

Another key strength is our deposit gathering franchise, and there are a few key points to make. First, we have a high number of branches relative to our customer base and compared to other banks. This branch footprint is critical to our ability to gather deposits and represents about 73% of our total customer deposits base. Across both our proprietary network and community bank partners we delivered growth of 4% on the prior year.

Second, we've lagged the market in our digital deposits offering but it's catching up fast. In March 2023 we launched term deposits online under the Bendigo brand, settling approximately $145 million by 30 June. In our Up business, we grew deposit balances by 40% on the prior year. We've also seen strong growth in term deposits on the prior year, and importantly, high retention rates as customers roll into new terms. These factors strengthen our ability to fund the bank's lending activities at competitive rates, and it shows up in our deposit to loan ratio which at 69% is seven percentage points higher than system.

Turning now to net interest margin. Compared to the prior half, our NIM improved 8 basis points to 189 basis points. Asset pricing negatively impacted 8 basis points, reflecting the cost of funds impacting variable rates mortgages in particular. Deposit and funding pricing contributed strongly, adding 19 basis points. Mix and other provided a benefit of 6 basis points, and almost all of this number is the benefit from our replicating portfolio on capital and deposits.

Our liquids increased modestly through the half, with growth in deposits outpacing lending, and this impacted one basis point. Finally, revenue share has increased 8 basis points compared to the prior half, primarily due to the impact of rising rates on deposit margins where our community banks write meaningful volumes. Our fourth quarter average NIM was 196 basis points. With some volatility in our monthly numbers, this is a more reliable indicator of our exit NIM.

On key considerations we continue to see both tailwinds and headwinds ahead of us. On tailwinds, we see cash rates continuing to rise, and we expect one more rate rise. We also continue to see customers rolling off fixed rates and mostly favouring variable rate mortgages. Variable rate front book margins are typically higher than our fixed rate back book margins. We'll also continue to see an ongoing benefit in replicating portfolio yields as a result of a rise in medium term swap curves through the year.

On headwinds, competition in the deposits is intense and we continue to observe a shift of customers towards term deposits, albeit at a slowing rate. Higher funding costs are also likely as the industry continues to refinance the term funding facility.

Turning now to operating expenses. At a headline level, costs increased 5.9% on the prior year and there are three key drivers behind this. First, the prevalence of scams globally and domestically has increased through the year and we, like other institutions, have felt some impact. Scam and fraud losses rose through the year and contributed 1.7% to our overall cost growth. Through the course of the year, we doubled the amount of our financial crimes team, and along with other measures which we have taken, we've seen a substantial slowdown in these costs in the last quarter of the year.

Second, with the strong income growth that we achieved through the year, we increased the volume of spend on our transformation program. As you saw from Marnie's presentation, we're making good progress on our targets. This increase contributed 1.8% to our overall cost growth.

Third, our business as usual spend contributed just 2.4% to our overall cost growth, which is well below inflation. Excluding the increase in our financial crimes team, our FTE levels would have reduced by around 0.5%. This result reflects our ongoing work in managing costs and creating efficiencies in our various teams.

In respect of future considerations on costs, for financial year '24 we expect inflation to stay elevated for most of the financial year. We will continue to invest in our transformation program, including investments to further strengthen our scam and fraud detection capabilities. We will also continue the investment in our residential lending transformation program and will commence new investment in Business and Agri lending. At the same time, our work on productivity and cost management will continues, and we are targeting a further improvement in our cost to income ration through financial year '24.

Over the medium term we will continue to invest in the digitisation of our business, and at the same time, drive further productivity improvements. Our commitment to reducing our cost to income ratio towards 50% is unchanged.

Turning now to credit quality and credit expenses. Our key credit metrics remain sound, and we continue to carefully watch trends in the industry and within our book. Through the half we booked a credit expense of $28 million. Breaking that down, we increased our collective provision by around $6 million. Specific provisions booked totalled $22 million and were related to factors specific to a small number of customers. Gross impaired loans continue to track downwards, representing just 0.14% of gross loans.

Arrears across the book remain low but are increasing. Ninety-plus days arrears in residential lending are currently 46 basis points, up from 41 basis points as of December 2022. Business arrears have increased from 2.1% to 2.52%, with the spike that you can see in the chart reflecting the temporary impact of some expired loan facilities. Agri arrears are stable. Whilst the asset quality remains sound and arrears are at historic lows, we do expect bad debts to trend upwards and move towards longer term averages over time.

This next chart is the one we showed you at the half year. Starting from the top right-hand side you can see that 31% of our customers are at least two years ahead of scheduled repayments, and that has come down from 34% 12 months ago. At the other end of that chart, you can see that 16% of customers have no buffer and that proportion has remained stable on the half. Breaking down that 16% of customers with no buffer, 88% of those customers have an LVR of less than or equal to 80%.

On the bottom left-hand side, you can see the conservatism in our underwriting standards where the proportion of our lending customers above 6 times debt to income remains well below the major banks and continues to fall as a percentage of our new originations. On the bottom right-hand side, you can see around one-third of our portfolio has been originated in the last two years and is sitting at a dynamic LVR in the low 60s. So, overall, our residential lending portfolio is holding up well.

Moving now to provision coverage. In this half, the chart on the left shows that we've increased our provisions by around 2% on the half. The main change is an increase in the collective provision and a small increase in specific provisions. On the right-hand side chart, we show the split of our collective provisions modelled scenarios and overlays.

On modelled outcomes, our scenario weightings have been changed from 31 December and we have increased the base scenario weighting from 50% to 55% and reduced the downside scenario. At the same time, we've taken a more conservative economic outlook as it relates to interest rates, GDP growth and unemployment. The net effect of this has been to increase our modelled collective provision by around $10 million in the half.

On overlays, the aggregate amount we're holding is largely unchanged, but we have made some changes to the composition of those overlays. We've removed the farmland values overlay but picked this up in our modelled downside scenarios. We've also increased the fixed to variable conversion overlay and have increased construction industry overlay. Overall, we remain comfortable with the level of provisions that we're carrying, and we continue to keep a close eye on credit conditions across the economy and our exposures.

Our funding and liquidity metrics remains strong and well diversified. With continued growth in customer deposits over the half, the proportion of customer deposits to overall funding was stable at around 73%. Our coverage of deposits to loans at 69% is well above the industry average. Our community bank partnerships, importantly, provides us with a net $11 billion of funding which provides further diversification and a relatively cheaper funding source than wholesale funding.

During the half, we further diversified our sources of funding, completing our second covered bond issuance in June 2023. We also announced on 9 August that the LCR overlay have been removed by APRA. At 30 June we had repaid $725 million of our total of $4.7 billion of term funding facility, and as of today 34% of borrowings have been refinanced or are in the 30-day LCR window. So, with our expanded funding facilities, strong deposit franchise, and the recent adjustment to our LCR, we are well placed to refinance the remainder of the term funding facility over the next 12 months.

Turning now to capital and dividends. Our CET1 ratio increased 112 basis points to 11.25% over the half. The increase reflects a few factors. First, the benefit from the introduction of the new capital framework reforms added 111 basis points. This is higher than our initial estimate and has come through from a combination of credit and operational risk weighted assets. Second, organic capital generated was marginally positive for the half and over the year it was 53 basis points.

Directors have declared a fully franked dividend of $0.32 per share for the second half which represents a 60% payout ratio for the year and is a 15.1% increase on the prior year. Given our strong capital position, we intend to again neutralise the DRP as we did for the first half dividend. So, in summary we find ourselves in a strong capital position going into financial year 2024.

Finally, our focus on continuing to lift our return of equity above the cost of capital will continue. There are four key building blocks to get us there. Continuing our disciplined approach to competing in home lending and taking advantage of our multi-channel approach including digital. Diversifying our balance sheet as we look to re-build our Business and Agri division and there are some early signs of momentum in this result. Investing in our strong deposit gathering franchise, and in particular, the strength of our community bank partnership. Continued focus on cost management and targeting of ongoing improvement in our cost to income ratio.

These four factors in combination provide a credible path for us to achieve our aspiration of a return on equity above cost of capital. With that I'll now hand back to Marnie to make some final comments.

Marnie Baker Thanks Andrew. As you can see, we have a defined program of work to deliver on our stated objectives. We will continue to leverage our unique points of difference, muti-channel experience, and core assets to grow at or better than system. As part of our transformation program, we will launch in November our new lending platform, which will initially be made available to our third-party originators before being rolled out to our proprietary channels.

The new lending platform will significantly reduce application, approval, and settlement times, streamlining processes and removing unnecessary friction, enabling a better experience for our customers and staff. This along with a further reduction in core banking systems and brands, and a disciplined approach to cost management commensurate with the revenue environment, is key to achieving our cost to income target of towards 50% in the medium term.

The other major program is the rebuild of the Business and Agribusiness proposition, realising significant latent opportunity, particularly given our deep regional roots and community presence. Enhancing the customer experience through key technologies will move Bendigo's offering to a more comparable position in the market and over the medium term make a more substantial contribution to shareholder value.

Our outcomes to date give us confidence for the future. Our purpose-driven and customer-focused organisation is simpler and more streamlined. We continue to build capability in digital, data, and risk, which will reduce complexity for our people, deliver efficiencies for our business, and create improved experiences for our customers. Our demonstrated focus on returns, execution, and sustainability is delivering benefits for our customers, people, partners, communities, and shareholders.

We remain committed to our strategy and the qualities that make Bendigo and Adelaide Bank unique by staying true to our connection with communities, our regional roots, and our position as Australia's most trusted bank.

I will now hand back to Sam to manage the Q&A.

Sam Miller Thanks Marnie. Just to remind everyone, if you'd like to ask a question it's star one, one. We might go to our first question, please. We have Minh Pham from Barrenjoey on the line. Min, please fire away.

Minh Pham Thanks, Sam. Hi, Marnie, Andrew. I appreciate the opportunity to ask a question. Just one from me. We've seen all of the major banks have struggled to reduce cost to income ratios because of rising inflation, additional investments, as you mentioned today, required in cyber security and financial scams, and some of them are struggling to meet their cost to capital.

While I appreciate that you've made some investments that have improved their non-lending losses in the fourth quarter and you may be a little bit less complex than the majors, there's very little economies of scale in the investments. So, as a smaller player, that is a disadvantage. So, how do you (1) meet your cost to income ratio target toward 50%, and then (2) generate an ROE that covers your cost of capital in a challenging revenue environment and in light of the investments required?

Andrew Morgan Minh, thanks very much for the question, and great to hear you on the call. A couple of components to what you've said. So, let's talk about the cost to income component of the story first and then we'll come to return on equity. So, on our cost to income ratio, what we've shown through this year and over the course of the year, is an ability to manage our costs cognisant of the income environment. There is no doubt we'll see a slowing income environment into next year. We know, and economists will talk about slowing credit growth, slowing deposit growth, will talk about NIMs no doubt, on the call.

The way that we think about cost though, and cost to income ratio is, we will manage our cost for the environment in which we find ourselves. We have productivity programs and initiatives already underway. We've made some significant changes in some of our operating models through this year. We'll look to also continue, really importantly, the investment in our transformation.

Some of that benefit will play through in this year, some of that benefit will play through in future years. Also, as we've shown through this result, we will flex investment depending on the income environment. So, if things slow down, we may well take a different view on investment spend. We've said today, very deliberately, two components to guidance on cost. One is that medium-term cost guidance, but also the shorter term into this year, we're looking to improve our cost to income ratio. So, it's all about balance, we believe, Minh, both productivity, but also making sure we continue to invest for long-term benefit.

On return on equity, your second question. It's something that we are very, very focused on. We've been talking about it now for quite a period of time. We've done a lot of work around our businesses to improve our calculators, to improve the way that we think about our investment cases. One of the great things about having a multi-channel approach is, we can think very carefully about where we get best economics.

We've said, as it relates to growth, that we are looking to grow above system, but only where the economics make sense. I think it's fair to say that as we've seen, particularly in this last quarter, that competition has eased somewhat in lending, particularly with cashbacks coming out of the system, and some great pricing activity. That gives us the ability to manage return on equity to the levels that we want.

Minh Pham Thank you.

Sam Miller Thanks, Minh. We go to our next question, please. It's from Sally Hong from Morgan Stanley.

Sally Hong Thanks, Sam. Good morning, Marnie, and Andrew. Sally Hong from Morgan Stanley. We noticed that you moved your standard online savings account rate by 1.5% during the June quarter, and your bonus saver rate by even more. Can you explain why you did that and whether it means your margin was down or level in the month of June and will fall materially in September quarter?

Andrew Morgan Thanks very much, Sally, and great also to hear you on the call. Look, we're not giving our – we're not talking about our exit margin for the month of June, very deliberately and that's because, as I said earlier, it's a volatile environment. We know through the course of the year that interest rates have risen sharply. We know there's been competition on both sides of the balance sheet. So, it's far more instructive to look at quarterly NIMs and average NIMs rather than monthly NIMs. So, we won't comment on NIM.

What I will say on deposit pricing is, you're right, we made some significant changes in our savings accounts, and to an extent in our term deposits as well. That was partly because we had been a little out of market in respect of our competitiveness. Others were moving through the half, we felt it was important as we started to see opportunities to lend to make sure that our deposits were also equality competitive.

Sally Hong Thank you.

Sam Miller Thanks, Sally. Our next question comes from Brendan Sproules from Citi.

Brendan Sproules Yes, good morning, Marnie, and team. My question's just on your fourth quarter revenue performance. You show us in the quarterly NIMs that it's sort of fell 5 basis points, but obviously as you suggested, that you had grown faster than system, at least in the mortgage market. So, would you describe the fourth quarter performance as trying to manage its volume versus margin equation throughout the year? Would you say that the fourth quarter actually grew the revenue in an overall sense when I sort of weigh off the stronger lending growth versus the margin decline?

Andrew Morgan We're not giving the actual number for the fourth quarter revenue, Brendan, but I think your observations are right. So, as we in the fourth quarter look to grow, we saw opportunities in lending. We also needed to make sure that we were competitive enough in deposits. So, our deposit pricing had to move at a faster rate than our lending pricing. That's what caused the reduction in our fourth quarter average NIM.

Brendan Sproules Just a second question just on your cost slide, on slide 25. When I look at the comments that you made, are we actually going to see a material reduction in the overall cost level of 6% given that inflation's quite strong and you're continuing to invest in the transformation program?

Andrew Morgan Well, as I said, Brendan, earlier, there are three key components to our cost growth. The increase in scams and frauds, as I talked about, was a factor in our overall cost growth for the year. So, that added 1.7% to our overall cost growth. What we have seen as a result of a substantial increase in our financial crimes team and also with some investment that we've made through the year, and frankly, that we'll continue to make into next year is, we feel like that cost is much more in control in the last quarter. So, we've seen a substantial reduction in those costs in the final quarter. So, that gives us some confidence going into next year.

In addition to that, as I talked about, we increased our investment spend through the year in response to the income environment. To the extent that income growth is not there next year, it is a lever that we will pull. I also mentioned earlier that we continue our work on productivity and cost management. We have a number of productivity programs underway right now across a number of our different teams. I absolutely acknowledge your point that inflation will stay elevated, but we think in combination with that ability to flex our investment spend with non-lending losses, we hope having peaked through this year. With those ongoing productivity programs, we should be in good shape to make that cost to income guidance.

Brendan Sproules All right. Thank you.

Sam Miller Thanks Brendan. Our next question comes from Josh Freiman from Macquarie. Oh no, sorry, my apologies, John Storey from UBS. Sorry John. John, are you on the line?

Operator, we might go to Josh and come back to John, if that is okay?

Josh Freiman Hey, can you hear me?

Andrew Morgan Yes.

Josh Freiman Okay, cool. Hey guys, thanks for the opportunity. Just a couple of questions from me. I might start on the deposit side. Some of your peers have mentioned that deposit mix shift has actually slowed over this half. Are you guys able to provide, I guess, some further colour just on your deposit mix shift trends over the half and how you sort of expect that to trend from here?

Andrew Morgan Yes, thanks Josh. So we – I mentioned this earlier – we have certainly seen over the course of the year a shift into term deposits, unsurprisingly with the rate environment going the way that it is. What we have seen in the second half is there has continued to be a shift, but it has slowed, particularly in the last quarter. So that is certainly something that we have observed.

Josh Freiman Understood. Thank you. Second question, just on your, I guess your cost base there, we are still seeing capitalised balances sort of remain stable despite the accelerated amortisation you guys put through, and we are still seeing quite a lot of capitalisation in the investments. How do you guys see that moving going forward?

Andrew Morgan It is an asset-by-asset proposition, Josh, so we look very carefully at the nature of spend that we are incurring and we then make decisions about whether we believe there is an enduring benefit or not. We also think very carefully about the useful life of those assets and will make then judgements inside our accounting policies, which are very strict on this, about what is able to be capitalised and what is not.

What I would also say is as we thought about and then announced the impairment earlier – and this will be a factor going forward – we have looked very closely at the range of software assets that have been built over time. The extent to which any of those assets at a very granular level are no longer in use, so in effect are obsolete, we would move to either accelerate the amortisation period or if they have been completely shutdown to write those off. So that will be an ongoing balance that we will need to strike.

Josh Freiman Thank you.

Sam Miller Thanks Josh. Our next question comes from Ed Henning at CLSA.

Ed Henning *[Inaudible]*

Andrew Morgan Ed?

Ed Henning Oh sorry, you cut out there. Thanks for taking my questions. Can I just start with a question, today you do not call out the LCR benefit you are going to get in your margin walk for '24. Is this just a timing thing that it will come through in '25, and can you talk about what the reduction here is. Then I have got a second question please?

Andrew Morgan LCR benefits – so we – sorry, Ed, just so I am clear – you are referring to the announcement we made on 9 August that APRA made in removing the NCO overlay, is that right?

Ed Henning Yes.

Andrew Morgan Yes, so that adds 12 to 14 percentage points to our LCR. Now we deliberately gave a range a couple of days ago because at the time we had not printed our quarterly LCR number. That's in our Pillar 3 that was released this morning, so the 61-day average was 131 basis points, so you can add on roughly 13% to that and you get to the right number.

Look Ed, we have got the term funding facility in front of us. We are very focussed on making sure that we are carrying sufficient liquidity to meet that comfortably. We have a lot of capacity in respect of wholesale funding. I talked about our covered bond program earlier. We will carry probably a higher level of liquids therefore through the year but will to the extent we can look to invest those appropriately. '25 very different proposition, so I will kind of park that for now, in respect of where NIM dynamics might go. You had a second question?

Ed Henning Yes. Just on that before we go on to the next one, can you just give us any clarity on if you were to reduce it what the benefit would be, just so we can think about the impact for '25?

Andrew Morgan Reduce the NIM benefit back down to 130 odd, is that what you are suggesting?

Ed Henning Well no, just you have got an excess of 10% in liquids there, maybe you guys take it all out but just give us some sort of indication on how much of a benefit or a tailwind that could be for margin when you do look to reduce it.

Andrew Morgan I think it is sort of up and down, Ed, so we would typically run our LCRs around the 130s anyway, so what the removal of the NCO overlay has given us is additional liquidity. That liquidity will be helpful as we think about repaying the term funding facility over time. We will normalise our LCR back down to that sort of mid-130s level once we are through the term funding facility.

Ed Henning Okay, thank you. Then just a second question on return on equity and capital, you talk about today about improving your return on equity. Can you just – and in line with or above your fostered equity – can you just talk about (1) what your cost of equity is and then (2) you are sitting 75 basis points about the top end of your Core Equity Tier 1 range and I know you want to be prudent, if you do improve your cost of equity that should improve your organic capital generation. Can you just talk about what level is too prudent or do you expect to grow really fast, to use that capital for growth, how should we think about that going forward?

Andrew Morgan So a couple of good questions. So on your latter question, how much is too much capital I think is the summary of the question you have asked. So as it stands right now it is a pretty uncertain environment in front of us. We are well above our Board target range of 10% to 10.5%. We think it is prudent to stay at that sort of level for the time being. We do think it is important though that we give shareholders a fair return for the profit that we have made, and so we increased the dividend very specifically to be broadly in line with cash earnings.

I think as we see this part of the cycle improve that will give us more clarity as to where capital will settle over time. Clearly with some excess capital that gives us some opportunities to continue to invest in our business. I have talked about some of those investments today, so for the time being, Ed, we will stay above the range, which we think is the prudent thing to do.

Sorry, can you just remind me of your first question?

Ed Henning Just the cost of equity. You talked about obviously targeting a higher return on equity, but what is your cost of capital there?

Andrew Morgan Yes, it is not dissimilar to what we talked about last year, Ed.

Ed Henning So 10%?

Andrew Morgan That is about right.

Ed Henning Okay. Thank you.

Sam Miller Thanks, Ed. Our next question comes from Matt Dunger from Bank of America.

Matt Dunger Yes, thank you for taking my questions. Just if I could touch on the costs, and you have moved away from the broadly flat on FY22 medium-term target, just wondering if you could talk to what has changed here? Andrew, you talked about some flexibility on costs, but what has changed in the half?

Andrew Morgan Morning, Matt, nice to talk to you. Look, the key thing that has changed, Matt, is the stickiness of the inflationary environment I think has been quite interesting. So inflation is stuck at around 6s. It was at 7 I think at the half, and it has come down a little bit, but I think it is fair to say that the combination of wage and price inflation has caused us to reconsider that broadly flat costs guidance. However, what we are saying today is that we want to continue to improve our cost to income ratio and so very deliberately we have talked today about looking to improve that cost to income ratio into '24.

Matt Dunger Thank you, and if I could just ask on the, around the credit quality and the provision coverage, you are citing arrears across the portfolio, that CP coverage is flat, you have reduced, even reduced the weightings to the downside scenarios. Why are you more comfortable around the deterioration scenarios not playing out anymore?

Andrew Morgan Well, what we have done is we have increased the base case weighting, but the severity if you like we have increased. So we've been I think quite conservative in respect of unemployment, GDP and inflation, and so kind of one thing balances off against the other, and in fact our CP, our modelled CP has increased by about $10 million over the half. We think that is prudent.

As we talked about in our slide on residential lending, at the moment our residential lending portfolio is in good shape. Our customers, on average, continue to be well ahead of scheduled repayments and our Business and Agri customers as well continue to be well ahead of their scheduled repayments.

At the same time, it is a very dynamic environment and so whilst as we sit here right now, we think our provision coverage is adequate, we are keeping a very close eye on how the economy develops over the next six to 12 months.

Matt Dunger Thank you very much.

Sam Miller Thanks Matt. Our next question comes from John Storey at UBS.

John Storey Righto, thanks so much Sam. It was just – slide 42 I think is pretty interesting, just on your resi lending portfolio, particularly just looking at the flow rates. One thing that stands out for me is you are writing quite a lot of fixed rate business. It is obviously not that consistent I guess with some of the comments that you are saying [*inaudible*] clients that come off fixed roll into variable. I just get a – be interested to get a sense of why kind of 22% that is, seems like quite a big number, and then particularly kind of in the context of how margins potentially could move around with Bendigo still expecting one more rate increase. Maybe if you just give us some insight on that, that is the first one.

Andrew Morgan Yes, so we have a very good fixed rate product, John, and it is attractive, particularly to our third party partners, and so we have seen opportunities in that area to write good business. I would stress that the way that we think about writing business is all about making sure that we generate the appropriate level of return. So that is our first comment.

On margins more generally, look, we are not giving guidance overall on direction of margin, but it is fair to say that we see both headwinds and tailwinds. One of the tailwinds in particular that I wanted to make sure you are all aware of is our replicating portfolio, which has a slide on page 48, and if you have a look at that slide what you can see there is the exit yield on that portfolio is significantly higher than the average yield for the year, and so that is a pretty meaningful tailwind for us.

I talked about the variable to fixed rate dynamic, and John, just to clarify what I meant by that, as we are seeing customers refinance out of their fixed rate loans, they are typically choosing to go into variable rate, but some are still choosing to go into fixed rate. That number is about 70/30 today, so in other words, 70% of those maturing are going into variable, so that is the dynamic I was talking about earlier.

John Storey Just another one quickly, a point of clarification. So third party bank lending 66% over flows. Does the digital product sit within third party lending, or is that really just a broker channel?

Andrew Morgan Some John, so the way that we [*inaudible*] the components is Tic

Marnie Baker Qantas.

Andrew Morgan …Qantas, sorry, just clarifying – Tic

John Storey Got you. Okay, that is perfect. Thanks so much.

Sam Miller Thanks John. Our next question comes from Andrew Triggs from J.P. Morgan.

Andrew Triggs Thank you, Sam. Morning, Marnie and Andrew. First question please, the removal of the exit NIM chart you say is due to there being significant volatility in the month of June. Could you elaborate please on what that volatility is, noting that liquidity impacts are becoming negligible for the bank and basis risk also looked to be fairly stable in the period? Can you give us some reassurance I guess that the volatility was not just negative volatility given that very late re-pricing of online and rewards saver products very late around the start of the June period, June month?

Andrew Morgan Thanks Andrew. So as you have noted one of the components of volatility was the re-pricing that we did in our deposit book, and there was a timing difference if you like between when we re-priced deposits and when we re-priced some lending. So that is what caused some of that volatility.

Andrew Triggs Would you call that volatility? I mean that is going to stay in the basis, Andrew. I think other banks would sort of regard that as just business as usual.

Andrew Morgan It is volatility in the sense that we have moved on rates at different times to deposits, and so it was particularly I think exacerbated in June. So again we felt that was not instructive to show an exit NIM. Instead we think the quarterly average is more reflective of where things are right now.

Andrew Triggs Okay, thank you. Second question, just on your target for an improvement in the cost to income ratio in FY24, can I ask, does that rely on absolute cost reduction for that year please?

Andrew Morgan It relies on productivity programs. It assumes that there is a certain degree of inflation. We have made some assumptions around where we think credit growth will go, where we think deposit growth will go, where we think other income will go. We clearly made some assumptions about margin, and what we have then said is, well we need our cost growth to be slower than that number - I am not going to tell you what that number is - and inside that number we have assumed that we will continue to invest, we have assumed that there is some productivity, and as I mentioned earlier, to the extent that things need to flex we will flex our investments then to make sure that we put ourselves in a good position to hit that cost to income target.

Andrew Triggs Thanks Andrew, and can you just maybe provide a commitment that one of the flex points will not be a further write-off of capitalised software balances? I mean

I think that is a bugbear of the market generally. I know all banks do it, but that has significantly helped your cost growth for the second half.

Andrew Morgan Well, Andrew, what I would say about that is we are really following accounting rules here, and the accounting rules very clearly say that when assets are obsolete that they should be impaired, and that is really all we have done here.

Technology is moving at a fast pace, the extent to which assets that we built say five, six years ago are now no longer in use, then under the accounting rules that is what we have to do. So what we are doing very clearly here, Andrew, is we are making sure that we are complying with the accounting rules. We also have internal policy notes that guide this. We have Board committees that oversee it, so what we are doing is conforming with all of that.

Andrew Triggs Andrew, most banks would not take it below the line. Most banks these days would treat it as an adjustment to cash earnings and hence would feed directly into executive remuneration for instance.

Andrew Morgan Yes, so we have very specific policies and guidance notes around what goes above the line and what goes below the line, so that is something that we have followed and done consistently through this year.

Andrew Triggs Thank you.

Sam Miller Thanks Andrew. Our next question comes from Jeff Cai from Jarden Group.

Jeff Cai Good morning. Just a question on deposits. So it looks about 45% of your savings deposits is paying less than 2% to savers. How do you think about the pace of adverse deposit mix shifts going forward? Is there a risk of a bit of a big step change going forward?

Andrew Morgan Well, Jeff – thanks, Jeff, thanks for the question. What we talked about earlier was in particular what we have seen in term deposits and some switching out of transaction accounts, and I think it was Josh that asked the question. We have seen something of a slowdown there. I think it is fair to say that some of that shift has been driven by the pace of rises in interest rates. One would expect that as the pace of rate changes slows, the rate of switching would slow.

Jeff Cai All right. Thank you.

Sam Miller Thanks Jeff. Our next question comes from Azib Khan.

Azib Khan You have been adamant that you will not, you will try not to write new business below the cost of capital. Nonetheless there has been an 8-basis-points margin drag from lending pricing. In light of that is it fair to assume that the bulk of that eight BPS drag has come from retention discounting? Then I have got a follow-up.

Andrew Morgan Well, it is over the course of a half, and what it reflects is that our ability to re-price has not kept pace with rising cost of funds in the way that we transfer price. So that is the dynamic that you have seen.

We have not been in cashbacks and we are trying to stay as disciplined as we can, as I talked about a couple of times through other questions, we have spent a lot of time improving our pricing calculators. Our frontline teams know what their targets are and they stick to those targets.

Azib Khan Of that 8 bps though, Andrew, is the bulk of that retention discounting as opposed to front book?

Andrew Morgan It is more so front book.

Azib Khan It is more front book than retention discounting?

Andrew Morgan Yes.

Azib Khan Okay, and what percentage of your mortgage back book has re-priced, and can you please tell us what has been the trend in monthly mortgage back-book re-pricing volumes?

Andrew Morgan We might take that question offline. That is quite a detailed question for this call, so we will follow up with you after.

Azib Khan No worries. Thank you.

Sam Miller Thanks Azib. Our next question comes from Nathan Zaia from Morningstar.

Nathan Zaia Thank you. Morning, Marnie and Andrew. I had another question on deposits. Like you know that the trend in switching has slowed, but is there any comment you can make, particularly in recent months, around transaction balances or offset or any types of savings account really falling as people try to meet higher mortgage repayments?

Andrew Morgan Well, we have seen a little bit of a slowdown in offset accounts through the year, but I would not say it is a particularly meaningful slowdown. I think the other way to think about that is to look at the amount of buffers that residential lending customers are holding, and so through the course of the year, on average our residential lending customers are at 29 months ahead of scheduled repayment. Last year that was 36. That is still well ahead of scheduled repayments, but it has been dropping, and so that is partly reflected through offset accounts being utilised.

Nathan Zaia Okay, and is there any differences between a Bendigo branded customer verse a customer in Up in terms of that resiliency in those savings they have?

Andrew Morgan We might take that question offline. Thanks Nathan.

Nathan Zaia Just one other one on digital settlement. Can you make any comment around how much human interaction there is for Bendigo compared to a loan written in a broking channel, like how many hours might be spent for example?

Andrew Morgan Without getting into the exact numbers, it really depends on how many of the decision rules, if you like, a customer passes as they put their details into an application. So typically what happens is a customer will put in their details, they will pass through this decision engine. If all of the rules are met then the turnaround time could be minutes. If there are any exceptions that pop out then it will depend on the volume and the nature of those exceptions. If there are lots of exceptions, then clearly that stretches out the number of minutes or hours taken.

What it is fair to say though is that a loan that goes straight through is in the minutes, whereas a loan today, settled through normal channels, is in the hours.

Nathan Zaia Okay. That is helpful. All right. Thank you.

Sam Miller Our next question comes from Jon Mott.

Jon Mott Yes, hi guys. Just wanted to piece together a bit of information that you have given us today. You were saying that you want the cost to income to improve into '24 although the revenue environment looks pretty challenging, and then you also talked about you will slowdown the investment spend if need be. One of the other pieces of information is that scams and fraud losses are up a lot, and the major banks are now talking about spend on scams and frauds and cyber, their investment spends are in the hundreds of millions of dollars per annum and not slowing down.

There is very little economies of scale here, so what I am trying to understand is if you are going to have to keep spending on risk, on fraud, on cyber, and the revenue environment gets pretty tough, it really means that you are going to have to crack down pretty aggressively on your investment spend on growth. So why [*inaudible*] possible, how much flexibility do you have, and are you really prepared to pull back aggressively just [*unclear*] CPI targets?

Andrew Morgan Yes, good question Jon. Can I ask, there is a lot of background noise on the call. If someone is not asking a question if you could go on mute, please.

Yes, so Jon, as I mentioned earlier, we have a number of productivity programs that are underway at the moment. We have been doing a lot of work through this year. We've announced through some of the restructuring provisions that we talked about a couple of weeks ago, that there has been some significant restructuring in some of our teams.

On investment spend, we have set aside an amount of money through next year. Some of that is actually going to go towards continuing to uplift our capability around detecting scams and frauds. Pleasingly what we have seen in the last quarter of the year is a dramatic slowdown. So whilst we saw a jump into the second half in the first few months, things have improved in the last few months. Now we are not getting complacent at all. That is why we have put significantly more operators into our financial crimes team, and so in combination we hope that we have gotten in front of the issue and it will not be a repeat into next year. But again we are not complacent, we will continue to invest.

We are at a different scale though to the majors, and so whilst CBA has talked about hundreds of millions of dollars, our cost base is a fraction of theirs, the complexity of our business I think is significantly less than theirs.

As it relates to the fungibility of our investment spend, will we make tough calls to meet our cost to income ratio? Look, as we stand right now, based on what we know, we will make the right sort of trade-off calls as we need to. This business is not about though just managing to the short-term. We have got to manage for the long-term as well. Some of the investment programs that we have talked about, particularly in our residential lending transformation and in our business and agri work, is going to set us up for the long-term.

So we will look carefully at investment decisions we need to make, and we will respond to the environment as it plays out through the course of the year.

Jon Mott Can I ask just one follow-up question on the monthly margin? I know you have been trying to avoid it and said there are some implications around timing in the month of June, but it is a slide that you have provided since 2016, and there is always volatility around the end of month and we have known that for a lot of time. So can we get a commitment to reinstate that slide at some stage, because it is something that a lot of people do use?

Given that there was timing between asset and liability re-pricing in the last month, can you give us some indication did that normalise out in the month of July, because it is a very big indication when your margin is down 5 bps in the quarter and there was some re-pricing [unclear] which would suggest it would be ongoing.

Andrew Morgan Well, Jon, on your first point, we will certainly take that under consideration. I appreciate the feedback that you have provided, so we will certainly consider that.

On the second point, talking about monthly NIMs for July is not appropriate, but what I will say is we have been very deliberate in talking about our quarterly average NIM, which we think is the more instructive number.

John Mott So we should be looking at the 5-basis-point reduction in the quarter as a good indication on where the NIMs are tracking?

Andrew Morgan As I said, we put that number into the slide very deliberately.

John Mott Thank you.

Sam Miller Thanks John. We have our last question of the morning from Sally Hong from Morgan Stanley.

Sally Hong Hi Marnie and Andrew. I have one more question. So what are your expectations for the revenue share of margin? Will that continue to go up or will deposit price competition mean revenue share also goes down?

Andrew Morgan Sally, there are plenty of moving parts in the revenue sharing arrangement, so just to briefly reiterate the way it works, it is all dependent on the volume of business that our community banks write, and it is also dependent on the individual product margins of that business that they write. Our community banks are typically heavier writers of deposits than assets, and so that is part of the driver why the revenue share was up year on year.

What I also though emphasise here is the benefit that that net funding that our community banks provide provides [*inaudible*] Bendigo. $11 billion of net funding actually provides a NIM benefit to us, because that net funding is typically more expensive than a retail deposit, less expensive than wholesale funding.

Sally Hong Great. Thank you.

Sam Miller Thanks Sally. I will hand back to Marnie to close.

Marnie Baker Thanks, Sam, and thank you to everyone on the call this morning for attending our presentation and for your ongoing interest and support in our Company. We do look forward to seeing many of you over the coming week. Thank you.

[End of Transcript]