TRANSCRIPT

BENDIGO AND ADELAIDE BANK 2024 FULL YEAR RESULTS

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Sam Miller Good morning everyone, and welcome to the market briefing for Bendigo and Adelaide's 2024 Full Year Results. Let me begin today by acknowledging the traditional owners of the lands on which we meet today. Here in Bendigo, it is the Dja Dja Wurrung people of the Kulin 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 on the call today.

Presenting on the call today we have our CEO and Managing Director, Marnie Baker, our CFO, Andrew Morgan, and 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. I'll now hand over to Marnie.

Marnie Baker Thanks Sam, and good morning everyone and thank you for joining us. I am really thrilled to be delivering my last set of results as CEO here at our headquarters in Bendigo. It's a set of results that clearly demonstrate how our disciplined approach is driving sustainable value for shareholders. In financial year 2024 we continued to make considered and balanced decisions to suit the environment. In the first half we built up liquidity and protected our balance sheet, and in the second half when the economics were more favourable, we leveraged our unique assets to deliver sustainable growth.

Our balance sheet remains resilient. Our deposit gathering capability remains strong, with customer deposits accounting for 76% of total loans. Our credit expenses remain at very low levels, well below industry averages, and our business as usual expenses were contained to below inflation whilst continuing to invest in our growth engines. Statutory net profit after tax increased 9.7%, supported by unrealised gains in the Homesafe portfolio. Cash earnings for the full year decreased 2.6%.

We continue to attract customers with our personalised service and quality products, with customer numbers increasing by 9.1% over the year to over 2.5 million customers, supported by our market leading net promoter score which is 27.9 points above the industry average. The hard work of our people and execution of our transformation program has created strong foundations for the

Bank, and firmly establish Bendigo as the only genuine and credible challenger to the major banks.

At a divisional level cash earnings in our Consumer division was down 7.6%. As we continue to prioritise margin over volume, and focus on creating more efficient channels for sustainable growth. The early signs from our investments in digital and the Bendigo lending platform are strong with mortgages growing 3.2% in the second half. This growth was supported by an increase in lower cost deposits and the launch of our digital In-app, Bendigo EasySaver product.

Cash earnings for our Business and Agribusiness division was up 13.4% year-on-year with Agribusiness lending growing 7.4%. The transformation of our Business and Agri division continues with investments in a new origination and customer relationship management platform to support efficient growth in our key target segments over the medium term, and to deliver on our aim of back to system growth in financial year 2026.

As rising cost of living pressures continue to present a challenge to Australian households, our purpose of feeding into the prosperity of our customers and their communities has never been more important. Our Mortgage Help Centre was established more than 20 years ago with the aim of keeping our customers in their homes. While the majority of our borrowing customers are in a sound position financially and our retention rates for our fixed rate borrowers remain high, we continue to stay close to and support borrowers who need our assistance.

We continue to refine and improve the way we communicate with our customers who are experiencing financial difficulty. By leveraging our digital capabilities, we have freed up our people to deliver more personalised assistance to our customers with call volumes to our Mortgage Help Centre increasing marginally over the year.

Six years ago, when I came into the role of CEO, and we set in place a strategy and transformation program that focussed on creating strong foundations for the Bank that would support our vision to be Australia's bank of choice. Our longstanding and unique purpose of feeding into prosperity, not off it, sets us apart from our competitors, helping us build deeper relationships with our over 2.5 million customers as well as attract new customers to our Bank.

Our strategic imperatives of reducing complexity, investing in capability, and telling our story ensure we remain focused on making it easier for customers to do business with us, allowing us to tap the strong pipeline of demand for our products and to improve shareholder returns.

This strategy and the sequencing of our investment in our key growth engines has provided a clear path to optimise our differentiators and deliver a

competitive banking experience that will support sustainable growth and meet the expectations of our customers, our people, and our shareholders.

At each results presentation I've spoken about our focus on returns, disciplined execution, and developing a more sustainable business for the long-term. Let me take a few minutes to summarise our achievements and how they are producing benefits for our customers, our people, and our shareholders.

Over the last five years we have delivered improvements across all key shareholder metrics. Cash earnings for financial year 2024 is up 87% over the five years, and just shy of the record earnings achieved in FY23. Return on equity is up from 5.36% to 8.18%, while our Common Equity Tier 1 ratio is up 207 basis points over the same period, strengthening our already resilient balance sheet.

Cash earnings for FY24 was down 2.6% year-on-year, off the back of a weaker first half. In February we called out the pre-funding of the term funding facility, higher liquidity levels, and the aggressive competition in mortgages as having a direct impact on our income in the first half. We were disciplined in our response to this, taking a measured approach to growth by focusing on lending in channels that met our ROE hurdles. Pleasingly, we have seen some stabilisation in mortgage competition, and residential mortgage grew 3.2% in the second half.

The work that has been undertaken to create a more efficient lending and deposit products and platforms is having a positive impact on our returns. Our business as usual costs remain below inflation as we continue to invest in our key growth engines that will deliver additional cost efficiencies and more scale benefits over time. At the same time, we have further strengthened our capital position as we progress through the uncertainty of the current economic environment.

In May at our investor day, we talked through our key growth engines of our digital bank, Up, our Business and Agri division, and our Bendigo lending platform. The ability to leverage these assets has been made possible by the careful execution of our transformation program launched five years ago. Guided by our strategic imperatives we set ourselves an ambitious agenda to deliver a significant reduction in our brands, systems, and processes, uplift our capabilities, and improve the take-up of digital services across our customer base.

I am pleased to report that we have achieved the majority our scorecard, and we expect to complete the remainder in the 2025 calendar year, including completion of the core system consolidation with the migration of Adelaide and Rural Bank customers to Bendigo Bank. The organisation has exited a number of non-strategic partnerships over the past five years to simplify our operations so our people can focus on opportunities for sustainable growth. The progress we have made on consolidating IT applications and lift in cloud usage are key

enablers for a more streamline technology stack that will help deliver products quickly and more efficiently to our customers.

The take-up of digital services by Bendigo Bank customers continues to improve as they come to recognise the convenience they offer, and we take the learnings from onboarding nearly one million Up digital customers seamlessly and efficiently and apply that to the Bendigo Bank brand. It is important to note the sales by digital channels presented on this slide does not include Up. When we include Up the 27% of sales by digital channels increases to 79%, more than exceeding our FY24 target.

At the same time, we have delivered operational effectiveness through a centralised operations team. In FY24 our Consumer and Operations teams continued to deliver significant efficiencies that provide both customer and shareholder benefits. Growth in our digital channels continues through the Up and Bendigo Bank products that are offered via our digital mortgage partnerships. Digital mortgage settlements increased in the half by 3%, now making up 19.3% of all settlements.

In digital deposits we launched the In-app Bendigo EasySaver product in February this year and have seen 60% of all new EasySaver accounts opened through the app. We are now focused on deploying Up's functionality, capability, and agility across the Group so that we can further optimise our strong net promoter score across all of our digital channels.

Our customer demographics have also shifted materially in the past six years. As at 30 June, 50% of our customers are 38 years old or younger. Up has been a large driver of this, delivering strong growth in engaged customers in an age bracket that positions us well for fulfilling their ongoing banking needs for many years to come.

Let me walk you through some of the features developed by Up which are driving higher levels of engagement and satisfaction. We spoke at length at the Investor Day about the capability and growth trajectory of Up. I want to emphasise again just how unique Up is in the market. As of 30 June, we have 920,000 Upsiders or customers, a 29% increase in customer numbers over the financial year. We believe this is unmatched by any other Australian bank.

After building our deposit book we soft launched Up home loans in 2022. Over the course of this half, we have seen an almost fourfold increase in the size of Up's portfolio to $560 million.

The slide on your screen shows how Up's unique features, such as a Home Deposit Saver and the Home Zone supports Upsiders in their home ownership journey from saving for a deposit to becoming pre-approved borrowers. This conditional pre-approval process has been accessed by over 10,000 Upsiders in the past six months. The momentum behind Up's digital gathering capabilities

has continued. Up has now amassed over $2.1 billion in deposits, delivering growth of 37% year-on-year.

Another Up feature that continues to grow is our joint account offering to Up which appeals to multiple generations, including customers under 30 years of age using it to cover shared expenses, as well as established couples using it to manage their household finances. Over 130,000 Upsiders are using this feature to make the management of their finances easier, and more are signing up every day. One final point on Up. This growth has been achieved at a cost of acquisition per customer of less than $50 and a sustainable, blended cost of funds. Andrew's going to talk more about our focus on further enhancing our digital capabilities in the next phase of our investment shortly.

The implementation of our ESG and Sustainability business plan is progressing. We completed the first of our Climate and Nature action plans with the majority of our staff completing non-mandatory climate training. This has raised the awareness and provided our staff with a better understanding of climate and nature risks so they can, in turn, help our customers better understand the implications of climate change.

This year we also developed a gender equality roadmap to ensure we continue to address the gender pay gap through targeted interventions in the remuneration cycle, better adjustments of like-for-like roles, and application of our fair pay strategy.

Our RepTrak reputation score remains strong in 2024 and was 73.6 in June, reflecting the high levels of trust that the wider community has in our business, something that we do not take for granted. Our unique Community Bank model, which remains one of the most tangible expressions of our purpose, invested $40.3 million back into communities in sponsorships and grants in FY24, taking the total of funds invested back into communities to $366 million since inception.

We continue to perform across the pillars identified in our ESG and Sustainability business plan. With a voice at the table in our communities we continue to collaborate with local people and organisations on initiatives that will deliver improved services, better infrastructure, and positive changes in the long term.

With that I'll now hand over to Andrew to talk through the financial results in more detail. Thanks, Andrew.

Andrew Morgan Thanks very much Marnie, and good morning everyone. As Marnie said in her introduction, this is a result which reflects the ongoing disciplined execution of our strategy whilst we continue to invest for the long-term benefit of our customers and shareholders and manage short-term headwinds.

For the year end of 30 June 2024, we recorded cash earnings of $562 million, which was down 2.6% on the prior year. Total income was up 1.1% and

operating expenses were up 5.8%. Excluding investment spend, expenses were up 4.6%. Credit expenses of $9.9 million was substantially lower than the prior year, primarily because there was a larger single [name] exposure in the prior year's result. Our statutory net profit after tax of $545 million was up 9.7% on the prior year. I will walk through the key non-cash items on the next slide.

We booked a strong improvement in results for the six months ended 30 June 2024, with cash earnings up 9.5% on the prior half. Income was up 4.2% and operating expenses were up 3.1%. On this page you can see the individual non-cash items, representing 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 the gains on completed contracts which have already been recognised through cash earnings.

The second item was a 1 half '24 impact which was the exit of the relationship agreement with Elders, and which was announced on 12 December last year. The third item includes a number of restructures undertaken through the year, in particular in our Business and Agri and Customer enablement divisions. The fourth item represents a number of smaller items, including amortisation of acquired intangibles, fair value adjustments, and acquisition costs. Taking those items into account, statutory net profit after tax of $545 million was up 9.7% on the prior year.

I want to now provide an overview of our second half performance and outline some more context on the choices we made and the impact that those choices had on our results. In residential lending markets we've seen some improvement in the economics of lending into third party channels. We've also been keen to test our new lending platform, and so have been willing to put our capital to work. Demand for digital mortgages also continues to grow and is the channel where, as you know, we make some of our strongest returns. So, our second half results show a return to growth in mortgage lending where we've grown the book by 3.2%, or 1.2 times system.

In deposits balances over the half are flat. We were effectively able to utilise our excess liquidity position to both fund lending activities and comfortably repay the term funding facility. This saw our liquidity balance reduce back down to more normal levels. At the same time, we've lifted the proportion of customer deposits to total funding from 75% to just over 76% through the half, and the mix of our customer deposits is improving.

Through prudent management of pricing and volume growth we've also seen improvement in our NIM, and importantly stabilisation across the third and fourth quarters on a normalised basis. We managed costs prudently through the half with expenses, excluding investment spend, up just 2.7%, reflecting the benefit of productivity and cost management activities.

So, with positive JAWS and de minimis credit expenses our cash earnings rose 9.5% on the prior half and our cost to income ratio improved to 57.2%. Our usage of capital was modest, and this helped to drive an improved return on equity, up 72 basis points over the half to 8.54%.

Turning now to total income. Compared to the prior half, income of $997.4 million was up 4.2%. The key driver of this improvement was net interest income, which was up 4.8%. Average interest earning assets fell 0.8% on the prior half, reflecting the run-off in our excess liquidity in the fourth quarter, whilst residential lending balances grew on average by 0.8%. Consistent with our trading update, we recorded a strong improvement in net interest margin over the half, which was up 11 basis points on a normalised basis.

Other income, excluding Homesafe was flat, whilst [unclear] income was up 7.7%, reflecting a strong increase in completed contracts. In respect of key considerations there are two. First the level of liquids that we're holding on balance sheet has reduced to more normal levels, so should provide a mixed benefit to income. Second, the Bank's Homesafe portfolio is now closed to new business as of 1 July 2024 and income will reduce over time, subject to the rate and profit on completions.

Turning now to net interest margin. Compared to the prior half, our normalised NIM improved 11 basis points to 194 basis points. Asset pricing negatively impacted 4 basis points, reflecting a continued but improved gap between front and back book pricing in variable rate mortgages. Deposit and funding pricing negatively impacted 6 basis points, reflecting higher average customer rates in term deposits and savings accounts following the cash rate rise in November last year.

Our replicating portfolio has provided a strong benefit of 11 basis points, with 8 basis points coming from replicated deposits. Mix and other provided a benefit of 13 basis point, with 4 basis points mix benefit in each of lending and deposits. We also made a change to the accounting treatment of certain loan origination costs in the fourth quarter. For transparency we show this in other, then back it out to get back to a normalised second half margin.

Finally, revenue share increased 1 basis point compared to the prior half, primarily due to the impact of slightly lower average interest earning assets.

Our third quarter NIM rose strongly, up 9 basis points, reflecting the benefit of pricing activity post the cash rate rise in November last year. Importantly, our fourth quarter NIM was stable compared to third quarter. Our normalised exit NIM for the half was marginally lower than the fourth quarter average. On key considerations for financial year '25. We expect cash rates to remain stable into next calendar year. We will see an ongoing benefit in replicating portfolio yields, but slightly lower than the full year benefit.

We also see customers rolling off fixed rates and mostly favouring variable rate mortgages instead, and this continues to be accretive. With our fixed rates book continuing to fall the benefit will be lower than that called out in our second half result. The unknown factor remains the degree of price competition on both sides of the balance sheet. We are seeing that competitive intensity is stabilising. On balance, based on what we know today we expect more stability in margins compared to what we've seen in the last few years.

Turning now to residential lending. We continue to prioritise the deployment of capital into channels where the economics are most compelling, being digital mortgages and our proprietary network. Increasingly the economics of lending into third party channels is improving for us. Through our direct and partner brands we've continued to see the proportion of digital mortgages to total settlements increase, now up to 19.3% through the second half. Digital settlements were up 41% in the half.

Through the second half we've started to grow again in our broker intermediated channel, taking advantage of our new lending platform. Settlements through this important channel were up 15% on the half and flat on this time last year. We also continue to see the proportion of fixed to variable rate mortgages fall, now down to just 18% of our mortgage portfolio. As customers' fixed rate loans mature our retention rates are high and have continued to improve, and customers are typically choosing to refinance to a variable rate mortgage.

So, momentum is improving, with growth in the second half running at 3.2%. We're looking to continue this momentum and are targeting to grow above system in financial year '25.

Our deposit gathering franchise remains an ongoing strength and underpins our growth ambitions. Across both our Proprietary Network and our Community Bank partners we delivered growth of 2% on the prior half. We continue to see good momentum in digital deposits. In our Up business digital deposits increased 18% over the half, while Bendigo digital deposits grew 38%. Importantly, deposit mix is improving.

Over the last half the strength of our digital EasySaver proposition has seen savings accounts as a proportion of deposits increased 160 basis points to 37.1% of deposits, whilst term deposits have reduced by 90 basis points. These factors strengthen our ability to fund the Bank's lending activities at competitive rates and it shows up in our household deposit to loan ratio which at 73% is 9 percentage points higher than system.

Turning now to operating expenses. Total cost increased 3.1% over the half. Excluding investment spend and remediation, expenses increased just 1.2% on the prior half. Inflation and software licence costs impacted our BAU cost,

contributing 3.7% to overall cost growth. Through the course of the half, we had a higher level of remediation activity, which contributed 1.5% of the total 3.1% cost growth. We are also delivering on productivity and cost management. Through the half average FTE were flat.

We increased investment in two of our growth businesses, Business and Agri, and Up. To offset this delivered further productivity efficiencies in our operations teams. This along with other initiatives saw us achieve productivity and cost management benefits of $13 million, or a 2.4% reduction in our cost growth.

In respect of future considerations on costs we expect inflation to abate, but remain elevated through next year. We are targeting to keep BAU cost growth contained to no higher than inflation through the cycle as we've done over the last five years.

As flagged at our recent Investor Day, we will continue to invest in our growth engines, including the new lending platform and the rebuild of Business and Agri. We are also increasing our investment in digital deposit gathering. As a result, we expect to increase cash investment spend for both financial year '25 and financial year '26 by approximately $30 million to $40 million on FY24 levels. The majority of that spend, or around two thirds, is expected to be OpEx rather than CapEx. At the same time, our work on productivity and cost management will continue.

Moving 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 net write-back of $0.9 million, which brought our full year expense to $9.9 million. Gross impaired loans have increased slightly, now representing 17 basis points of gross loans.

We do want to highlight that during financial year '24, we adopted a revised definition for restructured loans in the Business and Agri portfolio. On a normalised basis, gross impaired loans have increased by 8.7% to $135.7 million from a restated financial year '23 figure of $124.8 million. The increase relates to a small number of larger exposures.

Arrears across the book remain low but are increasing. Ninety plus days arrears in residential lending have increased in the low single digit basis points in the last six months. In Business and Agri, arrears have reduced in the last six months, partly due to a reduced amount of expired loans. Whilst asset quality remains sound and arrears are at historic lows, we do expect bad debts to trend upwards over time.

Our funding and liquidity metrics remain strong and well diversified. During the half, we fully repaid the term funding facility and replaced about one-third of that funding, meaning we were able to run down liquidity to more normal levels. With

the repayment of the TFF through the second half, the proportion of customer deposits to total funding improved to just over 76%.

Our coverage of household deposits to loans at 73% is well above the industry average. Importantly, our Community Bank partnerships provide us with a net $12 billion of funding, which provides further diversification and a relatively cheaper funding source than wholesale funding.

Turning now to capital and dividends. Our CET1 ratio improved to 11.32% over the half. This level of capital remains well above our board target. Directors have declared a final dividend of $0.33 per share, which will be fully franked, and which represents a 63.6% payout ratio for the half and is a 3.1% increase on the prior comparative period. Given our strong capital position, we intend, again, to neutralise the DRP as we've done over the last three halves.

From my earlier comments on investment spend, we do intend to utilise some of our current capital for further investment in our business over the next few years. In summary, we are in a strong capital position going into the new financial year.

Finally, I want to spend a few minutes talking, again, about our growth engines and how they link to our path towards achieving a return on equity above our cost of capital. As a reminder, our four key drivers are, first, a continued focus on cost management. As we previously shared, in the last five years, we've contained our business as usual cost growth to just 1.5%. Second, continuing to invest in our deposit gathering franchise and expanding our digital deposit gathering in consumer and in Business and Agri.

Third, diversifying our balance sheet with the rebuilding of our Business and Agri business division. Fourth, continuing our disciplined approach to deploying capital into those home lending channels where returns are most attractive and where growth opportunities exist. Linking that back to the three growth engines, which you heard about at our investor day, we see a number of opportunities here.

Our Bendigo lending platform is starting to deliver a reduced cost to serve on mortgages and a deepening of relationships with broker originated customers. The rollout of the new lending platform to the remainder of our network by the end of the next calendar year will provide a reduced cost to serve in those channels. Our rebuild of Business and Agri will see us return to system growth in financial year '26. By December of this year, we expect to have in market, a new underwriting engine, a new CRM and our refreshed business model in place.

The core banking platform will be migrated to our target platform early next calendar year. Our continued focus on Up will bring above system growth in digital mortgages and digital deposits, and importantly, fully funded growth.

In summary, we have a clear plan to achieve our Board approved targets of return on equity above the cost of capital over the medium-term. I'll now hand to Sam to facilitate the question and answers. Thank you.

Sam Miller Thanks Andrew. Just a reminder for those on the call, if you'd like to ask a question, please press star, one one, and you'll be advised that your hand is raised. Our first question is from Olivia Clemson at UBS.

Olivia Clemson Andrew, thank you for taking my questions. I have two this morning, if I could? Just firstly, regarding the NIM, the underlying drivers look a lot stronger than in the first half, although quarter on quarter, we can see your NIM hasn't moved. You said your normalised exit NIM was marginally lower. Would this infer that the rate of improvement in net interest margin has peaked, especially with the reduction of liquids now in the base?

Andrew Morgan Thanks very much, Olivia. Great to hear you being first up on the questions. Look, I think what we would say is there are certainly some known tailwinds and there are some known headwinds but what we've seen play out through the last six months is more stability. We certainly saw some benefits post the November cash rate rise in respect of the way that we responded with pricing. Our replicating portfolio continues to deliver good benefits.

We know that that will not be as much into next year. We know that the excess liquidity that we've been carrying will come off as well. That provides some benefit, but I think the key thing to take out of all of this is, with all of those things that we know about and the things that we don't know about - and of course, competition is one of the big ones - we think more stability is likely the outcome through '25.

Olivia Clemson That's great. Thank you. My second question is just around term deposits. As you've shown, they've been becoming a larger component of customer deposits sitting at roughly 37% of the mix now but that's dropped 90 basis points in this half. Could you just give us an update on your approach to pricing term deposits and if we should expect this relative mix to continue to come down?

Andrew Morgan Well, there's been a lot of action in term deposit markets, I think, across the market over the last few weeks. What it looks like it's shaping out as is competitors are picking a favourite tenor or tenors and pricing pretty sharply in those tenors. We have very rarely been sharpest in market. In fact, in our 12 month term deposit rates at the moment, I think we're somewhere around 10 basis points to 15 basis points below best in market.

We've never had to compete too hard to gather deposits. It's part of the strength of our physical network, whether that's through the Community Banks or through our proprietary network. Look, we're watching very curiously and

carefully, what's happening in term deposit markets. As we stand at the moment, we're comfortable with where we're positioned.

Just to answer the question about mix, our savings product is growing very strongly. In particular, that, I think has been buoyed by the launch of that product, EasySaver, through our app. It's clearly a superior margin to term deposits. If that's what customers are choosing, that's good news for us from a margin perspective.

Olivia Clemson Perfect. Thank you.

Sam Miller Thanks Olivia. Our next question comes from Annabel Ross from Barrenjoey.

Annabel Ross Good morning. Thank you for taking my question this morning. I'm looking over at slide 22, your residential lending slide. You've seen a pick up in volumes through the third-party channel in the second half of '24 as you rollout your new broker platform. I'm wondering how far through this broker platform rollout are you? Where do you expect your broker settlements to get to when it is fully up and running?

Marnie Baker Hi, Annabel. It's Marnie. I'll just start with that in relation to just how far through we are and then I'll hand over to Andrew. He might have some other comments. We now have onboarded all of our brokers and the aggregators, so we are now fully onboarded. We are now actually putting our mind to, Annabel, how we actually now onboard our retail network. We'll see the full volume starting to actually go through from a broker perspective.

I'll say we've been really pleased, actually, with the response from the broker network but also we're really pleased with actually how that platform is performing now that we have everyone onboard from a broker perspective. Andrew?

Andrew Morgan Yes. We announced fairly recently that we'd brought onboard a couple more aggregator groups. We're now at the point where we're satisfied we've got the full population in there. I think it's fair to say we don't sit here and think about proportions of the book that we'd like to see through various channels. What we have been really determined to do, though, is to support this channel. It's 70% of Australians that choose the broker intermediator channel. What our new lending platform has done is made that channel as efficient as we can possibly make it.

We're already starting to see that play out in a reduced cost to manufacture for those loans. It's part of the reason why we've been very comfortable to start deploying capital into that channel and it's the reason why we've been able to grow above system and why we are confident of being able to grow above system in '25.

Marnie Baker I think the other thing to also add, Annabel, is it was that we made - was to go with the lending platform to the broker network first before we actually went to our retail network. That was for a couple of reasons. We are wanting to retire the Adelaide Bank system and so we needed to get brokers off the Adelaide Bank system, but also because the product that we were offering through Adelaide Bank really was just an individual product. It didn't allow us to actually deepen any relationships there, and so the other thing that we're focusing on now that it's actually on the Bendigo Bank lending platform is how do we actually create a much deeper relationship with those customers?

Annabel Ross Great. Thank you so much.

Sam Miller Thank you, Annabel. Our next question comes from Sally Hong from Morgan Stanley.

Sally Hong Good morning Marnie and Andrew. Congratulations on your final result, Marnie. I just have two questions this morning. Firstly, you've told us that you're doing well on digital deposits and deposit mix was a 4 basis point margin benefit in the half. How much lower is the cost of new deposits versus your existing deposits? Will this be a material margin tailwind in FY25?

Andrew Morgan Morning Sally. Yes. Thank you for the question. We haven't really moved our rates around much in term deposits and savings. We made some changes in November to our EasySaver product, in particular, but haven't moved since then. We've made a few tweaks to our term deposit pricing around that sort of time as well. We haven't changed too much.

I think on the face of it, our front book rates for EasySaver are materially lower than our term deposit rates for the favoured tenor of our book. Our book typically for term deposits is around nine to 10 months and so when customers are coming on, they're typically choosing that sort of tenor and so there's quite a meaningful difference in the customer yield that we would pay for a savings account versus a term deposit, so it is pretty meaningful.

Sally Hong That's great. I just have a second question on costs. You still expect BAU expense growth to be below in inflation in FY25. What is the FY24 starting point for costs and how should we think about the impact of investment spending and large abnormal items like remediation going forward?

Andrew Morgan Yes. I might just address the remediation point first. We've been - as we always seek to be - transparent about what drives our cost base, what drives our income base. It is an unusual amount for us. We did want to call it out. What I will say is that we've estimated the amount. We've put the amount aside, so we've paid some remediation to our customers, and where we've got remediation to pay, we've put that money aside.

Now, we all know that remediation is a fact of life. In this year in particular, we've had a small number of larger remediation events which we think we've now got on top of, but I wouldn't want to say that there will never be any remediation because there will always be remediation. It's just been a larger amount through the course of this year.

Sally Hong Thanks Andrew.

Sam Miller Thanks Sally. We have a live guest here in Bendigo today. I'd like to see John Storey from UBS.

John Storey Thanks so much. Marnie, I think it would be remiss of me not to say congratulations on your 35 year career at Bendigo. Certainly the last six years as CEO have certainly been and I think the market will echo this - the last two years, the business has been transforming at pace, particularly around the digital transformation, which has been very impressive. I wish you very well as you leave Bendigo as CEO and on the next leg of your journey.

Two questions for you this morning. We obviously saw what happened last week with BOQ with the announcement just with regard to the owner managed branches and the strategy there. Bendigo's obviously got a community service model and obviously it's a very integral part of your business offering, but as this business continues to transform at the pace that it is and it's becoming a lot more digital - and it looks, certainly from the BOQ disclosure that we got last week - it's a very high cost to serve model. How do you think about the future of your community banking business model within that context?

Marnie Baker No. Thanks John. Thanks for your nice comments before, too. I do really appreciate that. Look, I know there'll be some comparison between the Bank of Queensland model and our own. They are both a franchise - or from a legal perspective, actually structured through franchise agreements - but they are very different. BOQ run a private franchise model. Like you rightfully said then, it's a community model that we run our franchise through which means that they are owned and operated by the community. Not by individuals but by the community, so the cost structure is different than a traditional branch is.

From our perspective, as long as the community actually wants a branch in their local area, then that's their decision to make. It is a lower cost to serve model from our perspective than a traditional branch, but I'll say it's also a very engaged and stickier sort of model as well. Andrew referred before around - just from a funding perspective, the deposit raising capability through the Community Bank network is significant.

Whilst we may see some changes and we do see changes in foot traffic, if you think about where the wealth actually sits in customer demographics at this point in time, it is in the older generation who are telling us - and continuing to

tell us - that they actually value to have a branch and a physical branch in their location, so from our perspective, it's a really important part of our model.

From a digital perspective, that doesn't mean that we're not thinking about how we actually digitise that model and how we are able to ensure the relevance of it as we actually go into the future. At this point in time, it's supporting the growth of our business really, really well. As we move forward - of which I won't be a part of that, but others will be - but I do know that it's a really clear part of our strategy and a really important part of our strategy, that local engagement with communities right across Australia.

John Storey Thanks Marnie. The second question - obviously the business made tremendous progress over the last two years. As you're mentioning, you get to be a shareholder now and certainly be on the outside, looking in. The business has obviously got a digital transformation agenda. What are some of the bigger risks or the obstacles that you would call out as an outsider looking in around Bendigo being able to deliver on some of these financial targets and metrics that you've put out to the market?

Marnie Baker Yes. The things that we think about within the organisation, John, is our capacity to undergo and to take on so much change at the same time. Look, I'm extremely proud of this organisation. I spoke before about it being a really ambitious agenda, and it was a really ambitious agenda. Then if you put on top of that, a period of time through the pandemic that we had to go through as well, it was even more difficult for the organisation to continue to have that courage to press on and do the things that we know needed to be done within our organisation if we are going to retain our relevance and actually be able to serve more customers going into the future.

I think it's that pace of change. I think it's those things that - the bigger risks are the things that you don't know about that may come our way at any particular point in time, but I will back - and I am going to be from the outside, in - but I know this organisation after 35 years and I will back this organisation. If it thinks it's in the best interest of our customers and our shareholders, it can do anything it sets its mind to. With such a strong purpose in this organisation and a purpose that surrounds itself around customer and community, throw any challenge to this organisation and you'll see it rise.

Sam Miller Thanks John. Going back to the phones, our next question comes from Ed Henning at CLSA.

Ed Henning Thanks. I've got a couple of questions, just on cost. Just the first one, just going back to remediation expense, you talked about that you've put some money away for what you think the remediation will be. Can you just give us a little bit more detail on what you're remediating here? Have you gone through comfortably, your book on what other banks have been facing? Are you

comfortable with what you know at the moment, there won't be any more remediation that you know of?

Marnie Baker Look, the first thing Ed I can say, yes - we're comfortable because that's why we've put away what we have. Remediation, by its very nature - and Andrew referred to this before - there will be more remediation, not only in our organisation but across the industry as we look to improve our businesses. There are things that will come of left field. I don't think any organisation - and definitely not our organisation - does things incorrectly or does things that's to the detriment of customers deliberately at any point in time, but history will show you that there are some things that actually do get picked up.

We face into that. We face into that because we want to improve as an organisation. I can't tell you what it sort of looks like for the future. We know the things that we know today. You're right. We do look across, what's going on across the industry, too. We regularly speak to regulators. We look at reports that are coming out from regulators. We look into our own organisation to see if there's anything that we should be thinking about and then we provide for it so that our customers are fully remediated for things that may have been things that we haven't done appropriately. Unless, Andrew, you've got any other…

Andrew Morgan Yes. Just one other thing to add. Ed, I think based on what we know, we're comfortable that we've sized the issue. As we're able to do under the Accounting Standards, we put an amount aside to capture the issues that we've called out.

Ed Henning Okay. Thank you for that. Then just another couple of questions on costs. You talked today about moving to one core system in FY2025. Can you just talk about the benefits that'll bring through '25 or through '26 - just your BAU expense? Then just a second one just on more the investment spend. You talked about it going up in '25 and '26. With what you know now, it sounds like you're comfortable that's going to roll off in '27.

Can you just talk about - not the investment spend part of it, but the BAU spend - any benefits you'll get through the years that you're investing or after through '27 that you see potentially a reduction in BAU spend or is it just keep you running below inflation? How do you think about that, please?

Marnie Baker I'll let Andrew actually speak to what it may look like moving forward, except to say, especially from a core banking system perspective, these are significant changes. If you think about the amount of regulation that we have, the amount of customer innovation - when you're applying that across multiple systems, there's a cost to that, and quite a significant cost - let alone risk issues that actually may also occur.

Getting onto one core banking system was a really key thing that was identified five years ago - (1) to minimise the risk of having multiple systems, but (2) to

actually be able to operate more efficiently so that we're only going to one system to make changes to at any particular point in time.

Andrew Morgan Thanks Marnie. Just to pick up on Marnie's comments as well, Ed, on your first question - what sort of benefits do we expect to see as the core comes off? It's really about more scale. We've got a very high fixed cost base today. The work that we're doing to simplify the core, we'll have some costs coming out. The bigger benefit is actually our ability to grow much faster without necessarily having to put on a lot of incremental costs. It's a scale play that we've got here.

One of the datapoints that I can share with you is around, for example, the amount of time it used to take us to do an assessment for a loan - which used to be almost a day - it's now minutes. There's a big difference in the benefit that the new lending platform, in particular, is creating. The core systems themselves don't take a lot of cost out because they're quite old systems but they do importantly provide that scale.

On your second question on future investment spend, yes - you're right. What we called out today was a $30 million to $40 million increase on financial year '24. That's not $30 million plus to $40 million plus another $30 million to $40 million in '26. It's the same number between '25 and '26, just to be super clear on that. Based on everything we know today, as you said, we think that number will come down. I suspect, as we've seen - as we'll see through the course of this next year and the year after - the mix of that spend will continue to change.

A lot of the spend over the last couple of years has been on the lending platform. There's more work to do through '25. We're putting more money to work in digital deposit gathering. We're putting investment into data. The mix of that spend will change, but based on everything we know today, we do expect to see '27 numbers come down, but again, that's a caveat on what we know today.

Ed Henning Thanks Andrew. Obviously you talked about the improvement in scale there. I imagine this applies to that as well, but will you see this reduce your BAU spend going forward for the new investment you're doing?

Andrew Morgan I'm not sure it's going to be absolute cost reduction, Ed. I think it's more so we'll be able to keep the spend contained to no higher than inflation, we as we've described this morning.

Ed Henning No. That's very helpful. Thank you very much. All the best, Marnie.

Marnie Baker Thanks Ed.

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

Matt Dunger Hi. Are you able to hear me?

Andrew Morgan Yes.

Marnie Baker Yes. Thanks Matt.

Matt Dunger Yes. Thank you very much. Congratulations, again, Marnie, on a solid result. If I could just ask - on slide 23, you've shown the channel shift to Community Bank and from Business and Agri on the deposit side. Can you talk to the Business and Agri deposit decline versus the pick-up in Community Bank deposits? How has that contributed to the 4 basis point benefit that you've shown in the margin waterfall in the half for the Group NIM?

Andrew Morgan Thanks Matt. Yes. We have seen some roll off in our Business and Agri deposits, which we're looking to address. That's kind of a separate issue to Community Bank. Yes. We have certainly lost some share. As we're going through the change of our operating model, we think that's probably had some contribution to that. On the Community Bank, the story is very consistent here. Our Community Banks are phenomenal deposit gatherers.

Really importantly for us, the mix of the deposits that they're writing is typically two-thirds, one-thirds - so two-thirds call accounts, which is transaction and savings accounts, and one-third, term. So, that does provide us with benefit. The overall mix benefit that we're seeing is really a couple of things. The fact that our term deposit book in aggregate as a proportion of the overall deposits is coming down is helping. That's being replaced by savings accounts so that's helping.

It's very early stages on this next point as well but we are starting to see a slowdown - really importantly - in the attrition of our transaction accounts. Through the half, our transaction accounts were down 4%, but really importantly, from February onwards, transaction account balances were flat. That's quite a change. That certainly gives us some confidence around how that deposit mix might continue to play out.

Increasingly as well - and we've talked about this previously - there is still switching behaviour going on. New transaction accounts are being opened and some of that money is switching into other accounts, but the high proportion of that switching is going into savings accounts again as opposed to term deposits. So, it's a mixture of a range of factors that's causing that mix benefit to play out in our NIM.

Matt Dunger Great. Thank you. If I could just follow up, on the lending side, you've called out a four basis point impact from lending pricing versus a four basis point benefit on the mix side. Are you able to unpack where that mix is coming from? Is that sort of benefit sustainable with the new Bendigo mortgage lending platform gaining scale? Presumably that's lower margin.

Andrew Morgan The mix benefit that we called out is mostly a function of our fixed rate book continuing to attrite. We've had a pretty significant amount of matures through

the course of the year. These are three year fixed rate loans or four year fixed rate loans. The margins that were being written three years or four years ago were much lower than what they are today.

What we've called out on the call as well is that as those fixed rate loans have been maturing, we're retaining a high proportion of those loans. Overwhelmingly, customers, as they choose to refinance with us, are choosing variable rate mortgages instead, and we've called out this dynamic in previous halves where our variable rate front book margins are above our fixed rate back book margins.

So, as that book continues to evolve, so as the proportion of fixed to total mortgages continues to reduce, that's what's giving us that mix benefit. I think, on your other point, Matt, on the lending platform, I'm not sure that that's quite the way that I'd think about it. So, we're priced on a carded rate basis at least a little sharper than others, but it's just a carded rate. We know that what happens actually in market is somewhat different to that. We think, as I said earlier, that margins as an overall statement are likely to be more stable into '25.

Matt Dunger Thank you very much.

Sam Miller Thank you, Matt. Our next question comes from Andrew Triggs from J. P. Morgan.

Andrew Triggs Thanks Sam, and firstly, Marnie, just adding my best wishes on life after Bendigo Bank. A couple of questions, please. Just the first one, just going back on cost, specifically the below the line costs. They were quite large in the period restructure costs of - I think it's for the year - of $74 million, of which $57.2 million was investment spend.

So, non-cash investment spend - sorry, non-cash for expense investment spend. The major banks have all cleaned up their accounting years ago, but regional banks really haven't. Andrew, could you describe what these costs are that are being taken below the line and how investment spend qualifies as a non-cash item?

Andrew Morgan Yes, thanks Andrew. So, I think as we've previously described, we've had a pretty long-standing policy that's approved by our Board where there are certain costs that, where they're related to restructuring or other, larger one-off costs, we're permitted to take those costs below the line. Now, this is a policy that we review every 12 months. It's due to be reviewed again towards the end of this calendar year.

Given the volume of work that we've been doing to restructure our business and Agri business division in particular, that's the way we've treated these costs, which is consistent with the policy. It's a treatment that we agree upfront with our Board. So, it's not something that we do after the fact. I think it's fair to say,

Andrew, that as we complete the final components of restructuring beyond '25, I think these costs will drop down pretty significantly.

Andrew Triggs But Andrew - so, but the lines [unclear] this year was labelled as investment spend, not operating expenses. That's the bit that I struggle to understand. What sort of investment spend that's restructuring-related has been taken below the line?

Andrew Morgan Yes, so it's to do with cleaning up of our core systems and migrating certain systems towards our target platforms, as long - as well as people-related costs, costs associated with other one-off activities to migrate off legacy technology, Andrew.

Andrew Triggs Okay, thank you. A second question just on the replicating following a tailwind - I think it was described as being the tailwind into next year as being slightly lower than this year, but it's actually very high in the second half of '24 at 11 basis points, and given the capital hedge is only 2.5 years in tenor, I presume by the second half of fiscal '25, that component of the tailwind will no longer be material.

Is that correct, and just given the significant fall in the five-year swap rate post-balance date, could you give us, perhaps, a point estimate if possible on how big the tailwind would be if swap rate stayed at the current level for the remainder of the first half, at least?

Andrew Morgan It's a little tricky to give you an accurate estimate, Andrew. I think just to pick up a couple of your points, so what I said was, I don't expect the benefit into '25 to be as significant as the full year '24 benefit, which is 13 basis points. So, I think it's going to be basis points below that. I think based on what you've said, and I agree with you, we know three and five-year swaps have come off pretty sharply over the last month or so.

So, I would anticipate that that benefit will be more first half than second half related. So, I'd expect to see a pretty good first half, and then a tail-off into the second half. I think the math, though, is pretty interesting in the sense that where three and five-year swaps are at the moment on a spot basis is still, I think, above our exit yields, and those exit yields are still above our average.

So, there is still - as old tractors are rolling off and new tractors are coming on, both in the capital and the deposits portfolios there is a still a question there, albeit, as you've said, we do expect that to tail off probably through the back end of '25 into '26.

Andrew Triggs Thanks, and the size of the [unclear] hedge was reduced in half, I think? Is that likely to continue to be the case, albeit you did flag that the transaction account run-off seemed to be slowing?

Andrew Morgan Yes. So, it's a dynamic portfolio. So, you notice, every month for the deposit portfolio a tractor comes on, one comes off. It's a 16-month tranche of rolling hedges. Transaction account balances have stabilised, as I talked about earlier, and so the deposits portfolio at the moment is at about $10 billion. We manage that portfolio in line with transaction accounts. So, on the basis that transaction accounts are a little bit more stable, that might suggest that the replicated balance might stay a little bit more stable as well.

Andrew Triggs Great, thank you.

Sam Miller Thanks Andrew. Our next question comes from Brendan Sproules from Citi. Are you there, Brendan?

Brendan Sproules Hi. Yes sorry, apologies. I didn't quite hear what name you'd called.

Sam Miller That's all right.

Brendan Sproules Good morning team. I just have a couple of questions, firstly relating to funding. I noticed you had a very strong second half performance from a revenue perspective, obviously driven by lending growth, but obviously had very little net customer deposit growth in the period. I was just wondering how that will change as we look out to '25. Are you planning to fund more of your incremental lending growth with deposits, and how would you need to affect your pricing strategy to achieve that?

Marnie Baker Well, one of the reasons why we didn't grow in deposits was because we were maintaining excess liquidity at the time. So, there wasn't a requirement to do that. As we run our liquidity levels off and we're back to more of a normalised liquidity level at the moment, then of course our first preference is always to look towards customer deposits funding.

We've got a number of channels and a number of options available to us. I've spoken about community bank before. We've spoken about digital, which is relatively new under the Bendigo Bank brand, to be raising deposits via digital. So, it will again be more customer deposits than other forms of funding.

Andrew Morgan Yes, agree with what Marnie's said. So, it's really important that we maintain diversification in our funding. So, we've got, as you know, new forms of funding available to us now, in the form of covered bonds, which we've been doing for about the last 12 or so months. Very strong deposit-gathering franchise as well. Ideally, we'd love to see that deposit mix in respect of total funding continue to lift, but at the same time, we've got to maintain diversification across our channels.

As we talked about earlier, we're keeping a very close eye on what's happening in term deposit markets at the moment. There have been some really interesting

moves that have played out in the last couple of weeks. So, yes, it's under active consideration right now, Brendan.

Marnie Baker And just to add another thing too, Brendan, as you know, why we do focus into raising retail deposits is that there's a great thing that actually comes with a retail deposit called a customer. So, that's the advantage there.

Brendan Sproules Okay, thank you. Just a question on the cost side, specifically slide 51 where you show us your investment spend. Obviously, you've flagged a higher investment spend in the next two years. I'm just interested in the capitalised software balance, which has obviously accelerated over the last 12 months, and I imagine that's due to a number of assets that are still under development.

When is it likely that we'll see a pick-up in amortisation expenses - those assets become operational, and how will that affect your longer-term cost target around - to try and maintain costs within underlying inflation?

Andrew Morgan Yes, so spot on, Brendan. So, we've had some software assets under development that are starting to now come into use. So, we need to start amortising those. We will see a step up in our amortisation spend up into financial year '25 and beyond, and that's why all of that cost and productivity work that we've been doing is really important. That's why having a scalable cost base also is extremely important. So, yes, you should expect amortisation ticking up as those under development software assets come into use.

Brendan Sproules Great, thank you.

Sam Miller Thanks Brendan. Our next call comes from Victor German from Macquarie.

Victor German Thank you, Sam. Can you hear me?

Sam Miller Perfectly.

Victor German Great, thank you so much, and Marnie, also, congratulations to you. There have been a lot of good questions already asked on strategy and all those important things. So, I might ask a couple of mundane questions to Andrew, if I could. Margins - I was hoping to focus on two things. One, liquids, another one is replicating the portfolio.

The liquids piece, if I look at your average balance sheet, you've said that liquids were 5% lower in the half. But the impact on margins in your waterfall was negligible. So, it sounds like you're capturing that somewhere else. Are you able to let us know where that missing piece is in terms of margin benefit - optical benefit - from reducing liquids?

Andrew Morgan Yes, so just to describe how liquids played out through the half. So, remember, the term funding facility repayments were eight and they played out through May and June. So, they were steadily coming out through those two months.

So, our liquidity was coming out through those couple of months as well quite steadily.

I think the other point to make, which we talked about earlier, is whilst we repaid that $3 billion with the strong growth that we had in residential loans, we did put on some wholesale funding late in the quarter as well. So, there have been a bunch of moving parts with our margins, Victor, but that might be why you're not seeing the numbers that you might expect.

Victor German But are you able to maybe give us - just reducing the liquidity, what would be the gross impact be, not without being offset by other pieces?

Andrew Morgan The liquidity impact in isolation is in the low single digit basis points, as we'd called out. At the half, it was about a 7 basis points drag on our first half NIM, and it had a little bit of benefit as that unwound late in the second half.

Victor German Right. So, you also mentioned that your exit margin was slightly lower than in the quarter. But liquids, they're obviously well down, as your slide suggests, and therefore that would be a sizable drag on the average interest earning effort in 1 half '25. Are you able to maybe put those two things into context and maybe in - holistically, what does it mean for your margins and volumes as we're thinking into next period?

Andrew Morgan Yes, so again, part of what weighed down on that exit NIM is the fact that we put some wholesale funding onto the balance sheet to fund what we thought was stronger than expected residential earning growth in the last couple of months of the year. As things play out into next year, as we said earlier, there are known tailwinds. I feel like I'm Donald Rumsfeld here a little bit.

There are known knowns and known unknowns. So, the known tailwinds replicating portfolio, and as we talked about just a couple of minutes ago, we think there's an ongoing benefit there, albeit not as significant as what we've seen through '24. We know that our fixed rate book of mortgages will continue to mature and the variable rate choice that customers are making as they refinance with us comes with some NIM benefits.

So, they're two known tailwinds. I talked earlier about our front to back book margin dynamics overall. So, that's why our lending number is a little bit lower in the waterfall. The unknown is competition. We have seen some really curious moves, I think, over the last month. So, fixed rate mortgage rates are coming down with some competitors. So, that's interesting, no doubt in reaction to where swap rates have gone.

Term deposit rates have moved around. Saving account rates haven't moved around a hell of a lot. So, Victor, when we put all of that together, we think that the last two quarters are quite instructive. So, on a normalised basis, 194 basis points for the half. 194 basis points says to us things are likely to be more stable

into financial year '25. So, hopefully that answers your question as best as I can answer it.

Victor German Yes it does, and obviously you're telling us how to think about next half. But it would be useful for us to understand the moving parts, and on the liquidity side, as you've said, with a drag in first half, now that the drag should disappear, presumably that's a sizable positive benefit that you will have on the margins going into 1 half '25. Is that not right, though?

Andrew Morgan In isolation, that's right, but remember, you've got to take the full package of things that we've just described.

Victor German Right. No, I understand. I understand. I just - okay, all right. Then the replicating portfolio, that - frankly, it's something that I really struggle to reconcile as well. You obviously said 11 basis point benefit this half, but if I look at your slide 47, looking at disclosed yields and the hedged amount that you disclose as well, it looks like the benefit should be more like 5 basis points purely based on those numbers. What am I missing?

Andrew Morgan I'm not sure, Victor. I'm not sure what you're spreadsheet's doing. What we show you…

Victor German Oh, no, I'm just looking at your slide 46.

Andrew Morgan Yes.

Victor German So, your basically 1 half '23, you disclose - sorry, 2 halve '24 average margin and 1 half '24 average margin. There's 38 basis point uplift on $14 billion. Just multiplying that times the gross balances. That's all I'm - it's not complicated maths, I think.

Andrew Morgan And then take that number over average interest earning assets and annualise it. So, maybe it's something we can work through a bit later, Victor. I'm not sure what sort of math you're looking at. But…

Victor German Okay, all right. Okay. That sounds helpful. Thank you. I'll call you back later.

Sam Miller Thanks Victor. Our next question is from John Li from Goldman Sachs.

John Li Hi, everyone. Can you hear me?

Sam Miller We can. Thanks, John.

John Li Okay, hi. Thank you for the opportunity to ask questions. I just wanted to confirm something about the commentary on investments, then. So, just wondering what the trajectory of that step up would look like into FY25 and '26.

Andrew Morgan Yes. So, what we called out was an increase of $30 million to $40 million on our financial year '24 levels, and then in respect of how we expect to treat that, and we've done a full bottom-up build of all the investments that we're looking to

make. We think around about two-thirds of that we will take to OpEx and the balance to CapEx.

John Li Okay. That's not a per year number, is it? It just happens all in one year? How does that $30 million to $40 million play out over the next two years?

Andrew Morgan Yes. So John, it's $30 million to $40 million on top of what we spend in '24, and think about '25 and '26 being the same number.

John Li I see.

Andrew Morgan Yes.

John Li Got you. Then just another one quickly on capital. How are you guys thinking about capital management going forward and how much of a priority would this be, and what would catalyse a decision to do something like a buy-back?

Marnie Baker Look, these are Board decisions that are made. So, I can't and won't actually speak about Board decisions, except to say that we did highlight through the presentation that we have some further investment to make and we'll be using some of that capital for future investments that we're making.

John Li Right, got it. Thank you.

Sam Miller Thanks John. Our next question comes from Brian Johnson from MST.

Brian Johnson Hi, and Marnie, reiterate the congratulations from everyone else. I just have three questions, if I may. If we have a look at slide 12, you can see the grey area that people enter the home lending stage when they're 35, and they seem to drop off the perch when they're 55.

So, if I was to take out a 30-year loan when I'm 35, that implies that I'm still - I'm just getting to the end of it when I'm 65. If I take it out when I'm 55, I'm just repaying the end of it when I'm 85. Could you just comment to us how the buffers practically work on the 30-year mortgages, or is this not an issue because someone can already sell their house?

Marnie Baker I won't get into a conversation about the appropriateness of buffers or not from a regulatory perspective except to say that they're there for - and especially, I suppose, the younger generation that are actually coming into their first home loans, to ensure that through that cycle that you talk about, and the cycle of interest rates and whatever else may actually throw up to them that they're able to actually support that loan through that period of time.

As you get older, as you know, you probably have some more disposable income, et cetera, available to you in other forms. But the buffers are there for the right reasons to ensure that people can look through a cycle and be able to actually meet their repayments.

Brian Johnson But Marnie, does this actually pose a practical constraint on credit growth relative to history?

Marnie Baker I think there's been a lot of commentary in the market, BJ, around whether that is right or not. I think it's more broader, the commentary, than just talking about our organisation, as to whether - the appropriateness of those buffers.

Brian Johnson Okay. The next one, if I may, I'd just be intrigued. What happens to Bendigo's earnings in a falling interest rate environment? The margin must go down. Or is that incorrect?

Andrew Morgan Brian, there are plenty of factors there. I think it's fair to say that, like most banks, the shape of our balance sheet has changed over the last few years, particularly as fixed rate loans have been maturing and we've got more assets in net overnight. So, we do some hedging away of basis risk on a really short duration basis. The replicating portfolio provides some downside protection. So, it rises slowly and it falls slowly.

I think the other unknown, of course, Brian, is what the competitive environment does as rates turn. So, there were plenty of pricing dynamics playing out as rates went up. We certainly got some leverage with the decisions that we made on the way up. How things play out on the way down, no one knows. So, as much as we can manage our own interest rate risk, we do that and we do it pretty effectively.

Brian Johnson Andrew, the next one is, just when we look at the commentary on easing competition, I'd just like to unpack that, if we could. You've got Up, which has got a rate of 5.95%. A lot of the competitors are still around 6.3% front book carded rates. We've got Bendigo itself, which I think is a carded rate of 6.01%.

When you actually do some channel checks, you can see that front book pricing carded rates are certainly deteriorating just over the last six, seven weeks. Is this in fact that you're sensing an easing back because you're already so far priced below the pack? Could you just run through - I just don't quite understand the commentary, unless it's because your price is so far below the pack at the moment.

Andrew Morgan Oh, we're certainly on the sharp end with Up, Brian, relative to other digital mortgage competitors. I don't think there's any getting away from that, and we made some deliberate decisions to test the elasticity of that pricing. It's something we continue to think about and look at. Up's got a very good funding model.

So, it's not entirely funded by savers' accounts. It also has some transaction accounts, which is something that I don't think is fully appreciated. It's about 14%, 15% of its deposit book. So, Up's in good shape. It makes very healthy returns for us. The carded rate you see for us through Ben Broker is the rate. So,

we don't discount, typically, below that. Based on the way that we can price in that channel, we make the sort of returns that meet our hurdle rates, and that's partly because of the cost of manufacture dynamic that we talked about earlier.

So, with the build of the new [lending] platform, the efficiency with which we can produce a loan, manufacture a loan, is giving us the ability to write business. So, look, based on what we see, what we hear is, yes, there are carded rates out there by our competitors. What actually transpires is rates below those carded rates. What we hear anecdotally, Brian, is that when you take competitors' carded rates and take off what they're doing to discount, we're there or thereabouts, I wouldn't say we're crazily priced relative to others.

Marnie Baker I think you're right though, BJ - oh, sorry.

Brian Johnson So Andrew, does that - sorry.

Marnie Baker I was going to say, BJ - you're right. We're a price-taker, we're not a price-maker in the market, in a general sense. That's why we've been focused on the other side and bringing down our cost to serve and are creating those sort of efficiencies, just because we've got less ability to make decisions on the revenue side around pricing. Albeit, though, that we are focusing on the overall return across each of those channels and products that we actually offer.

Brian Johnson Marnie, just a related issue, and I think this is very sensible, your carded rate on your website is actually below the rate that you see through the broker channel. So, from memory, I think Up is 5.95%, Bendigo's got a carded rate of 6.01%, brokers are selling your product at 6.14%. This is all very, very sensible. Do you get a bit of push-back from the brokers when they realise that I can actually get a cheaper rate through the branch channel?

Marnie Baker The way that it actually - we provide a delivered cost of funds there, Brian. So, a lot of this is actually dependent on the brokers themselves as to how they price.

Brian Johnson Yes.

Andrew Morgan I think what brokers are seeing now, Brian, with the new platform, and we get this feedback pretty strongly now, is certainty. So, when a customer's sitting in front of them, given the turnaround time on those loans and being able to get to a conditional approval within minutes gives that broker certainty, and what brokers love is certainty.

Brian Johnson Okay, now I'm going to push my luck with a final…

Sam Miller I don't think we've got time, BJ. I think we've only got a couple of minutes, so best make it quick.

Brian Johnson Well, what is the cost of capital, and when will you achieve it?

Marnie Baker I hope, BJ, that you see we've been closing the gap there. That is something that we've absolutely been focused on doing. You'll see that all of those variables that contribute to that, we've been improving. I think we had a conversation early on in the piece that we wanted to make sure that we did this in a sustainable way. So each half, we've been looking to actually close that gap even more. Now, I don't know whether you're willing to say anything about the future, Andrew, and the question that BJ asked about when.

Andrew Morgan Well, the Board target hasn't changed - the Board-approved target, which is medium term, and I know that that causes a little bit of frustration, so why aren't you being more specific? And the reason why is, we can - we do lots of modelling and we've got very detailed planning that we do, but stuff changes in market.

We could put a date out there, and if we don't hit it because of factors outside of our control, and that has certain implications - so, we would prefer to show you, Brian, as we've done through this half, that we can grow. We can lift margin. We can do it in a capital-efficient way. So, we can lift return on equity. We've improved cost of income. So, we do it through our actions.

Brian Johnson Thank you.

Sam Miller Thanks BJ. Two more to go. We've got Christian Mazza from Jefferies for our next call.

Christian Mazza Hello, can you hear me properly?

Sam Miller We can. Thanks, Christian.

Christian Mazza Perfect. Thanks, Sam, and congratulations, Marnie, on your tenure. Two quick questions from me. Firstly, given the recent attention on deposits from our Treasurer, we're just curious to know as to what percentage of savings accounts are you currently paying the bonus rate on and do you see increased [unclear] on depository and transparency being an issue for Bendigo going forward?

Andrew Morgan I don't have a number to hand, Christian, for your first question. What I'll say is that the overwhelming savings product that we're writing at the moment is EasySaver, which is not a bonus rate product, it's a flat rate. So, that's where we see most of the flow there. Did you want to say something?

Marnie Baker I think transparency is very important to the market. So, in a general sense, if I make a general statement relating to that, I think that is good. We will be - sorry?

Christian Mazza Yes, perfect, thanks for that, Marnie. Secondly, I know we've touched on this topic a tad, but do you think that you'll benefit from BOQ's corporatisation of their [LV] branches, and if so, how do you think this benefit will flow through?

Marnie Baker Look, that's not something that we have considered here. We're already very well represented Australia-wide, including in those areas and more particularly Queensland, where those branches are. So, it's not something from a footprint perspective that's for us to be thinking about. I am sure that depending on what actually does happen there and the timing of closing down any of those branches, that we will benefit from people who want to actually be able to access a branch, and we've got branches nearby.

Christian Mazza Cool. Thanks, Marnie.

Sam Miller Thanks, Christian. Marnie, this is your last question ever. So, there is no pressure, but it's coming from Richard Wiles, and I'm sure it's going to be an excellent question, Richard. Thank you.

Richard Wiles Thanks Sam. Hi, Marnie, hi, Andrew. I wanted to ask about Up's deposit franchise. So, Up's got 920,000 customers. That's actually a pretty big bank. But the deposit base is only $2.1 billion, which is actually not that big. It means the average deposit per customer is quite small. Can you give us some reasons why the average deposits per customer are quite small, and if you've got any strategies to grow that average deposit per customer, please?

Marnie Baker Richard, thanks for the question. It was always going to be smaller than the average of the industry because it was focused in on the younger customer base. So, when you look through to banks they'll have a spread across age demographics, and we know where the majority of the wealth actually sits, in the older demographic.

So, it actually was going to be a smaller average deposit to start with. But we are growing with these customers. That was the whole idea right at the start was that we would continue, that we'd have an engaged customer base that we could actually grow with as their financial needs expanded and as their, I'll say, disposable income and so forth also grew over that period of time. So, we think it'll be a story that you'll be able to watch over the coming years as you get to see how that customer base matures.

Richard Wiles Okay, and I can't recall if you've disclosed it previously, but what proportion of the Up customers would view Up as their main financial institution? Maybe that's a good indicator of how these deposits could grow in the future.

Marnie Baker We actually have it. So, [34%]. It's lower than the banks. So, ours sits in the 60% range for Bendigo Bank. But for Up, it's slightly lower, and that makes sense, because it's not a full product range at this particular point in time. It started with just deposits. We've now gone into home lending. So, to be the main financial institution, I think 34% is pretty good, given that we haven't got the full suite of products there at this point in time.

Richard Wiles So, does growth in the deposits per customer just grow naturally as that customer base matures or have you got some specific strategies to improve the deposit penetration?

Marnie Baker There are some specific strategies. I can go through it when we actually catch up with you, Richard, rather than holding this up. I know Sam's looking at me. But if you go to the Tree of Up, which is on the Up website, it actually gives you the forward look in relation to all of the coming features, et cetera. Some of those absolutely apply to deepening their relationships and growing that deposit base.

Richard Wiles Okay. Thanks, Marnie.

Sam Miller Thanks Richard. I'll now hand back to Marnie to close.

Marnie Baker Thanks Sam. We have sat and shared with you our agenda to deliver on our strategy. Our Board and Management remain committed to our return on equity and cost to income targets over the medium term, and our results today reaffirm our momentum in optimising our differentiators of strength, capability and trust. I would like to just, on a personal note, given that this is my last results presentation, I'd like to thank the investment community for your continued support.

For the analysts that are here in the room today - thank you, John - and of course those that are on the call, for holding us to account and engaging with us openly and authentically. To everyone within our bank - some are here today as well - who work hard every day delivering good outcomes for our customers, communities, and shareholders. Next week, Richard Fennell will step into the CEO role to lead the bank.

Many of you know Richard from his time as CFO and more recently as the Chief Customer Officer for the Consumer Division. I have known and worked with Richard for 17 years and I am confident he will continue to ensure the interests of our shareholders alongside our customers and communities are represented across the bank.

Six years ago, I presented my first set of results as CEO and Managing Director of Bendigo and Adelaide Bank, alongside our refreshed vision to be Australia's bank of choice. Since then, we have fundamentally restructured our cost and revenue base, delivered a comprehensive transformation program, and most importantly, maintained our status as Australia's most trusted bank.

I am extremely proud of what we delivered, and the milestones that we have achieved. By working together, we have created strong foundations for the bank, ensuring it can continue to deliver on its purpose for all our stakeholders well into the future.

Our capital levels are strong, and our funding as a measure of household deposits to loans is market-leading. We continue to lead the sector with our trust and advocacy scores, and our connections with our customers and their communities are as strong as they have ever been. There is no other bank which has our strength, capability and unique characteristics. Bendigo Bank continues to be the only genuine and credible challenger to the major banks. Thank you, everyone.

[End of Transcript]