**TRANSCRIPT**

**BENDIGO AND ADELAIDE BANK 2024 HALF YEAR RESULTS**

**19 FEBRUARY 2024**

**View webcast:** https://edge.media-server.com/mmc/p/xxqpt4wj/

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**Sam Miller:** Good morning, everyone, and welcome to the market briefing for Bendigo and Adelaide Bank's first half results. Let me begin today by acknowledging the Traditional Owners of the lands on which we meet today. Here in Sydney it is 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 on the call present today.

Presenting on the call today we have our CEO and Managing Director, Marnie Baker; our Chief Financial Officer, Andrew Morgan; and our Chief Risk Officer, 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 thanks for joining us. Today we announce a result that reflects prudent management of our shareholders' funds and the unique opportunities it has created for our Bank. We have continued to manage our business for long-term value, while at the same time adjusting to the short-term headwinds.

We have been deliberate in our decision to prefund the conclusion of the term funding facility, protected our margins where competitive tensions were irrational, kept expense growth below inflation by executing on productivity initiatives, and stayed the course with our investment plans, ensuring efficient use of shareholder funds for the long-term benefit of our customers.

Our balance sheet remains strong, with our core equity tier 1 at 11.23% and our liquidity coverage ratio at 151%. As a result of the elevated levels of capital and liquidity and the ongoing competitive environment on both sides of the balance sheet, our cash earnings for the half was down 5% to $268.2 million, with return on equity at 7.82%. Andrew's going to provide more detail on the financial results shortly.

Strategically, the transformation of the Bank continues. The significant work we have achieved to date in reducing our core banking systems from eight to four and our brands and business models from 13 to seven, is reducing complexity in our organisation and making us more efficient, paving the way for our competitive digital proposition that supports our customers and delivers the Bank attractive growth opportunities.

Turning to our divisional results. In our consumer business, a slight decline in mortgages and a focus on margin protection has resulted in a decrease in cash earnings for the half down 9.9%. The challenges outlined in our full year results remain and we have seen heightened competition across both our direct and third party channels.

With that said, our digital channels continue on an upward trajectory, accounting for 16.3% of all residential lending settlements, while our strength in attracting deposits is industry leading.

For business and agribusiness, cash earnings increased 16.7% half-on-half, driven by improved deposit margins and the nonrecurrence of a specific charge in the prior half. Notably, operating expenses were held below inflation, as the division continues to rebuild towards a less complex and more contemporary business. I'll talk more about our business and agri division later.

Over the course of our 165-year history, the Bank has made a concerted effort to conduct business in a way that benefits our people, customers and the communities in which we all live. We acknowledge that cost of living pressures are impacting some of our customers. To support financial strength in our customers, promote inclusive growth and in turn help build more capable, resilient and self-sufficient communities, we launched our first financial inclusion action plan in the half.

While the great majority of borrowers are in a good financial position, we know some will need our help. Given the current economic landscape, our mortgage help centre has seen a marginal increase in call volumes and complexity of enquiries. For customers with personal loans and credit cards, call volumes remain subdued.

Our customer focused strategy has ensured we continue to maintain our historically low loss rates and strong Net Promoter Score. Ultimately, our aim is to help our customers stay in their homes and we remain committed to serving our customers and the broader community through the difficult times as well as the good times.

Our teams are proactively reaching out to customers whose fixed rate loans are reaching expiry. We approach customers on multiple occasions to discuss their options, again with the purpose of supporting them as they transition to higher repayments. Our approach has yielded strong results, with retention rates remaining at historically high levels.

We are committed to reducing instances of scams and fraud for our customers. Our investments in this area, including the delivery of more than 100 face-to-face banking safely online classes, has contributed to lower customer-related fraud losses half-on-half.

From a broader perspective, our community bank model remains a tangible expression of our purpose and a valuable retail deposit gathering franchise. Community banks provide a net benefit of approximately $13 billion of funding and since inception have returned over $320 million back into communities right across Australia.

During the half, we commenced the onboarding of community banks to our community impact hub, an online tool to help manage and measure our community investments and their broader economic benefit. The community impact hub forms part of our broader social purpose agenda, which informs our approach to delivering meaningful social and economic change in a way which also delivers value for our business.

Our overarching strategy continues to remain relevant and we are over four years into its execution. It's important to emphasise that our investment decisions and focus are always anchored in achieving our objectives for long-term value for our shareholders.

The execution of our strategic imperatives of reducing complexity, investing in capability and telling our story are deeply embedded across our business and proudly, we tell our unique story through our purpose, which has to date attracted 2.47 million Australians to our Bank.

We have been growing our customer numbers, with close to 10% of the population now banking with us. We have delivered a significant increase in the 18- to 35-year-old age group through Up. With a market share of just under 3%, we are directing more of our investment to take advantage of the opportunity that we have created.

Our Net Promoter Score remains high, more than 27 basis points or 27 points above the majors' average. Our strong performance in customer advocacy and satisfaction measures will support the continued execution of our strategy, as we move into the second half of this year. The Bank we are building is unique and a genuine and compelling alternative to the majors.

In order to deliver on our strategy we are focused on returns, disciplined execution and developing a more sustainable business for the long term. These focus areas are producing benefits for our shareholders and good outcomes for our customers.

Looking at our returns, we faced a challenging half from an earnings perspective, as we continued to manage our business within a complex operating environment. Competition for lending and deposits remained high and similar to our peers but to a lesser extent, we have not been immune to the margin impacts.

Benefits to margin from an increasing cash rate have reduced, as banks look to grow balance sheets and prepare for term funding facility repayments in the half ahead. As stated earlier, we made a conscious decision to run liquidity at a higher level in order to prefund the upcoming maturities.

We have been diligent with our expense management and delivered sub-inflation cost growth for the half. At the same time, we have prudently managed our capital position with a core equity tier 1 ratio 98 basis points above our Board target midrange, as we progress through the uncertain economic environment.

In the half, positive expense efficiencies offset by weaker income have impacted our cost to income ratio and consequently our ROE, as a result of the lower earnings and higher capital levels. We are undertaking the required work in order to deliver stronger returns to our shareholders and remain committed to delivering key strategic projects which will enable the Bank to grow at a more efficient rate.

We continue to reduce complexity through the restructuring of our business and exiting of nonstrategic arrangements, such as exiting our relationship agreement with Elders, to focus on our core strategic channels and ensure a consistent experience for rural bank customers.

We divested the Bank's shareholding in Homesafe Solutions and will be ceasing funding of new customer contracts from 1 July 2024. We're progressing the sale of Bendigo Super, which has become non-core to the Bank's business, and transitioning our alliance banks to our community bank model, thereby consolidating our branch network and associated banking systems.

Andrew's going to go into a bit more detail as to the financial impact of these changes, but more broadly the restructuring of these businesses removes costs and complexity and provides the opportunity for capital and funding to be applied to more strategic businesses and initiatives with long-term value.

Now I want to walk you through the investments we have made to increase our capabilities in four priority focus areas, being digital lending and deposits, Up, business and agri and our new digital lending platform, which are all key to unlocking value in the medium term.

We are building strong momentum across our digital channels through our Up and Bendigo Bank platforms and leveraging our Tiimely, previously known as TIC:TOC partnership, to jointly enable our various digital mortgage partnerships.

Growth in digital mortgage settlements continues, reaching 16.3% of total residential settlements for the Group. In the first half of 2024, we opened up new pathways to drive digital mortgages as we entered a partnership with NRMA Insurance, to offer a digital home loan product to their three million customers.

Our digital channels, through BEN Express and Up, as well as third party digital channels, through Qantas Money home loans and Tiimely, continue to build momentum for our growth and aspirations.

As mentioned, digital deposits remain a key focus, with online functionality for term deposits and savings accounts enabled for new and existing Bendigo Bank customers. This functionality under the Bendigo Bank brand, alongside Up's proven track record, provides our growing customer base with an easier, more efficient experience to manage their money at a lower cost to the Bank.

With these products in place, a customer base that has increased by more than 50% in the last few years and a significant shift to a younger demographic, with 45% of our customer base now under the age of 35, we further realise our opportunity for growth.

We continue to reduce complexity across our organisation, creating a seamless experience for our growing customer base and enabling our vision to be Australia's bank of choice, through whichever channel customers choose to engage with us.

The Bank's investment in Up has delivered over 800,000 new customers, an innovative culture with the ability to bring products to the market quickly, as well as providing new areas of leverage across the Bank. The low acquisition cost of less than $50 per customer and high Net Promoter Score underpins our success.

Additional features that improve our customers' financial wellbeing reflects our purpose of feeding into prosperity. Some of the recent features that Up has implemented include Save Up 1000, which is designed to create a habit of saving, with 170,000 customers, or as we like to call them Upsiders, to date using the function.

Locked Savers, where 33,500 users have locked their saving for an average of 23 days. Up Home, which has settled $155 million of home loans, an increase of $92 million in the half. Hi-Fi, an in-app money management tool to help Upsiders better manage their money through automated savings and regular financial wellbeing check-ins.

We will look to continue to leverage Up's innovative culture and capability more broadly across the Bank, to deliver improved customer experiences that will support a more contemporary and sustainable bank over the long term.

Turning to our business and agri portfolio, I wanted to share in more detail the work that we have undertaken. Strategic decisions are always a balancing act and we recognised some time ago the need for our business and agribusiness division to be refreshed. We have identified our key capabilities and target segments, ensuring we have the right customers that align to our redefined risk appetite and improved deposit offering.

We are making the investment required to meet our customer expectations and deliver value. Our Chief Customer Officer Business and Agri, Adam Rowse, has restructured the team to support the required growth in the portfolio. There is more work to be done, including moving from manual processes that don't meet customers' expectations, to building a performance culture and regaining market share in sectors where we have strong brand recognition.

Over the coming year, investments in a new lending origination system and customer relationship management system will help deliver process efficiencies that will significantly improve the experience for our customers. The realignment of capability in the business and agri teams will support the ability to grow on both sides of the balance sheet over the medium term.

I'd also like to introduce our new digital lending platform. In the past we have originated loans through various channels, using multiple systems and processes, resulting in an experience that over time has fallen short of our customers' expectations, inhibited efficient growth and challenged our employees.

Currently, broker originated customers come to us through our Adelaide brand and associated banking systems, which has a narrower set of product and digital capability. The new platform will provide a simple streamlined process for lending, delivering automated credit decisioning within minutes and will enable us to deepen our relationships with our customers.

Bendigo Bank broker is the first stage in building a consistent experience that provides our broker originated customers with access to Bendigo's digital banking platforms and more importantly, a competitive and seamless home loan experience. As you know, we are committed to achieving time to decision of less than one day and the continued digitisation of our lending processes is key to helping us achieve this goal.

We began the Bendigo Bank broker pilot in late November with Finsure and currently we have 3,000 brokers on board and have processed over 200 loans. The preliminary results have been really positive, with unconditional approval on par with industry best practice. Andrew will elaborate further on these four opportunities when I hand over to him in a moment.

Our sustainability journey is central to our purpose and we continue to progress delivery of our ESG and sustainability business plan. In the first half, building on the success of our first climate change action plan, we launched our second climate strategy, being our climate and nature action plan. The plan drives action across the business, with clearly defined executive accountability to deliver outcomes.

Diversity and inclusion is high on our agenda and is a key driver of engagement for our people and strongly anchors to our purpose. Our belonging at BEN strategy is focused on delivering a range of diversity and inclusion initiatives, including supporting the Bank to achieve our 40-40-20 gender diversity targets, promoting access and inclusion through the launch of our section accessibility and inclusion plan, achieving bronze status through the Australian Workplace Equality Index and the ongoing implementation of our reflect reconciliation action plan.

Our RepTrak reputation score remains strong and continues to lead all banks, reflecting the positive sentiment in our brand, including the high levels of trust the wider community has in our business, something that we don't take for granted and work hard on every day. We are clearly in an advantageous position, with a voice at the table in our communities we are able to collaborate with local people and organisations to create long-lasting change on social and environmental issues.

With that, I'll now pass over to Andrew to run through the financial detail behind the half year result and to expand on the opportunities and growth engines I have just spoken about. Andrew.

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

Before I get into the result, I wanted to give you some more context on the choices we made through the half and the impacts that those choices had on our results.

In residential lending markets, we have continued to focus on deploying capital into channels where the economics are most compelling, being digital mortgages and our proprietary network. With price competition remaining intense, particularly in broker originated lending, this translated into lending volumes being marginally down.

In deposits, in the middle of last year we made a strategic choice to get ahead of term funding facility repayments. We made some significant pricing changes to our term deposits and some savings accounts late last financial year and have grown slightly above system in this half. With subdued lending volumes, we reached our prefunding targets earlier than expected and this is reflected in a stronger household deposit to lending ratio.

This combination of price competition and higher liquids has seen our net interest margin reduce 15 basis points over the half. Importantly, the impact of higher liquids on our NIM will unwind in the middle of this year. Given the income environment, we managed costs prudently through the half with expenses excluding investment spend up just 1.6%, reflecting the benefit of productivity and cost management activities.

With income reducing through the course of the half and cost growing, this saw our cash NPAT reduce 5% on the prior half and our cost to income ratio increase to 57.8%. Our usage of capital was minimal, which meant that the fall in our return on equity was almost solely due to the reduced cash NPAT result.

Turning now to our results. For the six months ended 31 December 2023, we recorded cash earnings after tax of $268.2 million. Total income was down 2.5% and operating expenses were up 1.4%, whilst credit expenses reduced to $10.8 million following a large single name exposure impact in the prior half. Our statutory net profit after tax was up 13.8% on the prior half and I'll walk through the key non-cash items on the following slide.

On this slide 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 gains on completed contracts which have already been recognised through cash earnings. There is also a benefit associated with the Homesafe Trust.

The second item includes the impact of the exit of the relationship agreement with Elders, which was announced on 12 December last year. The third item includes a number of restructures undertaken through the half and the fourth item represents a number of smaller items, including amortisation of acquired intangibles and acquisition costs.

Taking those items into account, statutory net profit after tax of $282.3 million was up 13.8% on the prior half.

Turning now to total income. Compared to the prior half, income of $956.8 million decreased 2.5%. The key driver of this reduction was net interest income which was down 3.6%. Average interest earning assets grew 2.8% and most of this growth was in liquid assets, which increased 7.7% on average. The benefit of this growth was impacted by a 15 basis points decline in net interest margin.

Other income, excluding Homesafe, was slightly lower than the prior half, mainly due to lower lending activity. For Homesafe, completed contracts increased 16% on the prior half and this led to a $7.2 million increase in Homesafe income.

On key considerations, there are two items to think about. The exit of the relationship agreement with Elders improves net interest income by approximately $10 million per annum and the restructure of the Homesafe Trust and cessation of the joint venture with Homesafe Solutions announced on 21 December means two things.

(1) The individual property assets have been equitably assigned from the Homesafe Trust directly on to the Bank's balance sheet. A small change to the accounting means that there has been a one-off increase in the carrying value of the properties of around $50 million. (2) With the funding of new contracts ceasing

from 1 July 2024, income will reduce over time subject to the rate of and profit on completions.

Turning now to net interest margin. Compared to the prior half, our NIM declined 15 basis points to 183 basis points. Asset pricing negatively impacted 8 basis points, reflecting the cost of funds impacting variable rate mortgages in particular. Deposit and funding pricing impacted 15 basis points following our decisions to reprice both our term deposit and key savings products late in Q4 of 2023.

Mix and other provided the benefit of 4 basis points, with the replicating portfolio providing a benefit of around 6 basis points and deposit mix part offsetting this. Our liquids increased strongly through the half, with growth in deposits outpacing lending and this impacted 7 basis points.

Finally, revenue share decreased 11 basis points compared to the prior half, primarily due to the impact of declining deposit margins where our community banks write meaningful volumes.

Our first quarter NIM fell sharply following the repricing of deposits that I talked about earlier. Our second quarter average NIM improved to 185 basis points. Our exit NIM for the half was also higher than the second quarter average.

On key considerations for 2H24, we expect cash rates to remain stable at current levels. We expect the current degree of competitive intensity on both sides of the balance sheet to continue. We also continue to see customers rolling off fixed rates and mostly favouring variable rate mortgages instead and this continues to be marginally accretive. We will also see an ongoing benefit in replicating portfolio yields, largely in line with previous guidance.

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. Through our direct and partner brands we have continued to see the proportion of digital mortgages to total settlements increase, now up to 16.3% through the first half.

Digital settlements were up 27% in the half, while settlements through broker were down 14% on the half, but flat on this time last year. We also continue to see the proportion of fixed to variable rate mortgages fall. 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.

Whilst our volumes are lower over the half, through momentum building in our new digital lending platform and continued progress in digital mortgages, we are targeting to return to growth in the second half.

An ongoing strength for us is our deposit gathering franchise and there are a few points that I want to make. First, our branch footprint is critical to our ability to gather deposits and represents around two-thirds of our total customer deposits base. Across both our proprietary network and community bank partners, we delivered growth of 5% on the prior half.

Second, we continue to see good momentum in digital deposits. In our Up business, digital deposits increased 16% over the course of the half. Third, we have also progressively been introducing digital deposits through the Bendigo Connect app. Over the course of the half, Bendigo branded digital deposits grew 28%.

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. At a headline level, costs increased 1.4% on the prior half. Inflation has impacted our BAU costs, contributing 5.1% to overall cost growth. With prior year investment in transformation, we have seen an increase in amortisation which contributed 1.8% to our overall cost growth.

Offsetting this, we've seen a benefit from the increased investment in scam and fraud detection made in the prior half and current half. Scam and fraud cost decreased $8 million on the half and reduced overall cost growth by 1.4%. We're also delivering on productivity and cost management. Through the half, FTE fell by 0.9%, which when coupled with cost management benefits saw us achieve productivity and other benefits of $22 million, or a 4% reduction in our cost base.

In respect of future considerations on costs, we expect inflation to abate but remain elevated through the second half. We're targeting to keep BAU cost growth contained to a level below inflation, as we have done this half. We will continue to invest in our large transformation programs, including digital lending and the rebuild of our business and agri division. At the same time, our work on productivity and cost management will continue. Our commitment to reducing our cost to income ratio towards 50% is unchanged.

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 course of the half, we booked a credit expense of $10.8 million which was substantially lower than the prior half.

Gross impaired loans have continued to track downwards, now representing just 12 basis points of gross loans. Arrears across the book remain low but are increasing. Ninety-plus days arrears in residential lending and business have increased marginally. Agri arrears increased from 1.91% to 2.5%, with the key driver being a higher-than-normal number of loans that have expired and not yet rolled to new terms.

Whilst 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.

Our funding and liquidity metrics remain strong and well diversified. With continued growth in customer deposits over the half, the proportion of customer deposits to total funding improved to around 75%. Our coverage of household deposits to loans at 73% is well above the industry average. Our community bank partnerships importantly provide us with a net $13 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 inaugural euro-denominated covered bond issuance in October 2023. As of 31 December, we had repaid $1.8 billion of our total of $4.7 billion of term funding facility and we're well positioned to comfortably repay the final $2.9 billion with the equivalent amount currently sitting in alternative liquids.

Turning now to capital and dividends. Our CET1 ratio decreased slightly to 11.23% over the half. Directors have declared a fully franked interim dividend of 30 cents per share, which represents a 63% payout ratio for the half and is a 3.4% increase on the prior comparative period.

Given our strong capital position, we intend to again neutralise the DRP, as we have done over the last two halves. We're also considering a AT1 issuance to refinance our CPS4 notes. In summary, we find ourselves in a strong capital position going into the second half.

Finally, I want to spend a few minutes talking about our growth engines, where we're at and what you can expect from us. Starting with residential lending, we have four channels today through which we write mortgages. In order of proportion of settlements, they are through third parties or brokers, through community banks, through our proprietary network and through digital channels.

We're in the process of rolling out our new digital lending platform to all of our broker partners, starting with the pilot which commenced in November 2023. Once we've completed the lending platform rollout to brokers, we will then move to provide the same functionality across our branch network and we see a number of benefits here.

First, a reduced average cost of manufacturing a mortgage. Second, a deepening of relationships with broker-originated customers from 1.7 products per customer today to between two and three over time. Third, speed and certainty of decision for the benefit of customers, which should lead to higher volumes. Fourth, a further simplification of our technology stack.

On business and agri, we're partway into a complete rebuild. As you know, our lending has been flat for the last few years. By December, we will have final leadership structures in place, simplified processes and a revised performance culture enabled by new technology. We expect to have in market a new underwriting engine, the core banking platform migrated to our target platform, a new CRM and our refreshed business model in place.

We see three opportunities here. First, a reinvigorated sales force with faster to decision technology. Second, a customer segment microbusiness, where we have 230,000 customers and a 9% market share. Today we gather deposits but do very little lending with these customers, reflected in products per customer of just over one.

Third, a focus on broker as a relatively new channel. We've been in marketing business for about two years and an agri broker since early 2023. These opportunities give us confidence that we can grow above system and generate attractive returns in this division.

Finally, on digital deposits. We will continue to invest in our already strong franchise. You've heard us continuing to talk about the ongoing success of our Up business. Since June 2021, Up saver balances have grown at 38% per annum and savings accounts represent around 85% of Up's deposit base.

Second, we've also started to leverage the engineering capabilities of our Up team into Bendigo's digital app. New and existing customers can now open term deposits and savings accounts online. In January 2024, we launched EasySaver, our flagship savings product, into our Bendigo app. In just three weeks we've opened over 5,000 savings accounts in app and digital sales now make up 60% of all new EasySaver accounts.

Through our business and agri strategy, we're also looking to build digital deposit gathering capability for our customers, particularly focused on transaction accounts. These are the benefits of our transformation program coming to life now and over the next couple of years and importantly, 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:** Thank you Andrew. Our results and progress on our strategy delivers us optionality and optimism for the future. By June this year we expect to have 1 million Up customers, Group assets close to $100 billion, a reduced number of corporate entities and greater consolidation in our technology infrastructure, all while retaining our market leading trust and customer advocacy scores.

These achievements illustrate how we have quietly built and leveraged the foundations necessary for a successful bank through innovation and with a focus on simplicity. The growth engines that we have both spoken about today will create further value and we look forward to sharing more details about this at our planned Investor Day in May this year.

By financial year 2026, our simplified operating model with one core banking system, two customer facing divisions and three brands, will provide the foundation for an efficient platform to deliver sustainable growth over the long term.

We are proud to be a regional bank and are different from our peers, with a household deposit to lending ratio of 73%, a strong balance sheet, high levels of staff engagement and a track record of innovation that includes our unique community bank model and our market-leading digital-only offering in Up.

The thoughtful and informed decisions we have made has positioned our balance sheet for the uncertain environment, ensuring we have the capacity to allocate capital to higher returning businesses and to continue to deliver on our purpose by supporting our customers and communities when they need it.

We have been and will continue to be responsible with shareholders' funds. We have been patient with our choices, have confidence in our execution and are optimistic about our future. I will now hand back to Sam to manage the question and answers. Thanks, Sam.

**Sam Miller:** Thanks very much, Marnie. We'll now start the Q&A session. For those who'd like to ask a question, please press star-one-one on your telephone keypad and wait for your name to be announced. Our first question today comes from Sally Hong from Morgan Stanley.

We just have a slight delay. Sorry, Sally.

**Sally Hong:** Hi, good morning, Marnie and Andrew. I just have two questions today. On my first question, the margin was down 15 basis points in the September quarter but was up in the December quarter and you mentioned the exit was also higher. Can you tell us what changed in the second quarter please? Then I have a second question.

**Marnie Baker:** Yes, well we had a number of moving parts in the first half, Sally. We spoke a bit about taking that conscious decision to repay our term funding facility ahead of the maturities. That was a 7-basis-point impact to margin, which once those maturities in the middle of the year are unwound, we'll see the unwinding also of that impact. But Andrew, if you want to add anything.

**Andrew Morgan:** Sure, thanks, Marnie. Just building, Sally, on what Marnie said. In particular through that second quarter we had the benefit of a rate rise. Given our funding position or our prefunding position, as Marnie talked about, we were able to ease back a little bit in some of our pricing, so that gave us a little bit of benefit into the second quarter.

**Sally Hong:** Great, that was really helpful. Just on the unwinding of the liquidity impact in the second half, would you be able to give a bit more detail on that? Should we expect another small impact in the second half or we shouldn't expect any at all?

**Andrew Morgan:** It won't be too much impact, Sally, in the second half. We've carried a lot of that excess liquidity for a fair proportion of the half, so it won't be much of an impact in the second half. Where you'll start to see that NIM impact unwind is in the first half of next financial year.

**Sally Hong:** Okay, great. Thanks for clarifying.

**Sam Miller:** Thanks, Sally. Our next question is from Minh Pham from Barrenjoey.

**Minh Pham:** Just from me on the digital settlements there, you're doing a great job on increasing this and you mentioned that it's a more profitable channel. Just interested in whether or not you actually see margins benefit from that, or is that actually going through as a lower cost to serve and it actually goes through the cost line?

**Marnie Baker:** Hi, Minh. Predominantly it actually goes to the cost line in the sense of the productivity efficiencies that we do get. Whether that's a direct to the cost line and taking that benefit, that cost out of the business, or it increases the capacity for us to be able to more efficiently grow.

**Minh Pham:** In terms of margins, you're probably actually passing on - it gets passed on through better rates rather than the margin?

**Andrew Morgan:** Minh, we think very carefully about how we price across our various channels and that's something that we constantly think about. It's true to say that the manufacturing costs across our different channels is different and that's because of some of the partnering that we use, in particular around our digital mortgages. That's why the economics are a little bit better, so there's less intermediation costs in a digital mortgage and less cost to manufacture those mortgages.

**Minh Pham:** Great, thank you.

**Sam Miller:** Thanks, Minh. Our next question is from Andrew Triggs from JP Morgan.

**Andrew Triggs:** Thank you, good morning. I had a couple of questions please. The first one, just a lot of volatility driven by liquidity in this period and likely, as you said, in the first half of 2025. Can I just check please, when we talk about the impact on margins, I'm also more interested in the impact on net interest income in a dollar sense. Will this rundown in liquidity that you see actually lead to NII growth or is it just replacing one form of funding with another, which doesn't really have an overall impact on NII dollars?

**Andrew Morgan:** There are two parts to the way that we think about this impact, Andrew. The first is the numerator, where clearly the earnings that we made on that access liquidity will be lower than other types of asset. The way that we think about this and prices, we assign a net interest margin, if you like, to those liquids, so that interest marginal things considered will improve, if you like, when that liquidity runs off.

The second is that because that liquidity is excess to our needs as it stands right now, that will also improve the denominator. So there's a numerator impact and a denominator impact as well that both benefit.

**Andrew Triggs:** Andrew, what was net stable funding ratio ex the TSF runoff? Because that really is the measure of how much further you can run down some of that surplus funding.

**Andrew Morgan:** We released our Pillar 3 this morning, Andrew, so our NSFR for the quarter was 122.7%. Sorry, that's...

**Andrew Triggs:** But what would the pro-forma NSFR be when TFF is fully rolled off?

**Andrew Morgan:** I might take that question away, Andrew, and we'll come back to you on that.

**Andrew Triggs:** Okay, thank you. Just on costs, nonlending losses or nonrecurrence of the same extended nonlending losses from last half was a tailwind to cost growth in the period. Are nonlending losses now at a normal level?

**Andrew Morgan:** I think it's hard to call normal, Andrew. We continue to be extremely prudent in the way that we're managing for this risk. We've put more operators into the key team, in our line 2 team through the half. I don't think we'd ever get complacent on this. We're pleased, of course, with the results that we've seen through the half, so I'd be reluctant to say that this is normal level. It's something we need to be continually vigilant on.

**Andrew Triggs:** Okay, thank you.

**Sam Miller:** Thanks, Andrew. Our next question is from Andrew Lyons from Goldman Sachs.

**Andrew Lyons:** Thanks and good morning. Just firstly, a question on your capital performance. I note that RWA growth was a 13 basis point headwind to capital growth, despite the fact that the balance sheet actually went backwards in the half. I assume that's probably liquids, but can you just confirm if that's the case? Just given I would have expected a more diluted impact from adding low risk weighted liquid assets.

**Andrew Morgan:** Andrew, you're spot-on. Whilst one part of the balance sheet did decline, in an overall sense - and you can see this in our Pillar 3 - our gross exposures did increase. Importantly, there's a couple of changes between buckets, where there was a shift into banks and other ADIs where there is a higher risk weight charge. That, I think, is the key driver that you've picked up on.

**Andrew Lyons:** Yes, okay, that's really helpful, thanks, Andrew. Then just a second question and again it's consistent with how you've done it in the past, but I'd just be keen to get an update on your approach. I note that you're still taking fairly sizeable restructuring costs below the line, which obviously is negative from the perspective of capital generation which is ultimately what shareholders are keen to see.

I'm just wondering about the decision to continue to take restructuring costs below the line. I note the major banks are now by and large taking them above the line, even if they are calling them out in some cases as large notable items.

**Andrew Morgan:** Yes, I think it's fair to say, Andrew, that we've seen a couple of periods of elevated restructuring costs. What I can tell you is the way that we think about and then charge these sorts of expenses is governed by a document which is agreed with our Board. The way that we've done this over time is very consistent. What you're seeing is really an elevated level of restructuring over the last couple of halves in particular, as we rebuild, restructure a couple of our divisions in particular.

**Andrew Lyons:** Thank you very much.

**Sam Miller:** Thanks, Andrew. Our next question is from Matt Wilson from Jefferies.

**Matthew Wilson:** Hi team, hopefully you can hear me okay.

**Marnie Baker:** Yes, we can hear you, Matt.

**Matthew Wilson:** Thank you. Just firstly a question on Homesafe, two parts. Can you give us an indication of the sort of behavioural duration in that portfolio, so we have some idea as to the pace of runoff?

Secondly, I presume you retain an option to divest your interest in that property portfolio if interest should emerge over time. Then I have a second question.

**Marnie Baker:** Matt, it's quite a seasoned portfolio, so it's been running for 17 years now, or 18 years I think it is now. We've got a really good understanding of how it does behave and we're finding that - I wouldn't be expecting that you're going to see a quick runoff in that portfolio. It will take some time because it's dependent on people making life decisions, or decisions being made for them in the case of not being able to actually stay in the house that they're in. You can expect that it will be a slower rundown and I think in relation to the other question, which I've lost now, was?

**Matthew Wilson:** Can you still sell that share in the portfolio?

**Marnie Baker:** They are now sitting on our balance sheet. Sitting on our balance sheet, the joint venture that we're in, we sold our share of the manager to our joint venture partner. Those contracts are now sitting on our balance sheet, so we retain optionality going forward in relation to that.

**Andrew Morgan:** Just, Matt, to pick up on something else that Marnie mentioned, the typical duration of those properties is somewhere between seven and eight years, to give you a sense of it.

**Matthew Wilson:** Okay, that's very useful. Then just secondly, more philosophically, given you're in a sort of strategic objective of boosting your business in agri portfolio, could you remind us what your inorganic philosophy is there?

**Marnie Baker:** Inorganic philosophy, we don't tend to actually talk about inorganic. Good try though, Matt. In relation to our organic, we are really focused. We are post-investment into the business and agribusiness, we've outlined this morning some of the work that's actually underway. We are wanting to return back to the market share that we previously had, so we're really focused on the organic building of that business.

**Matthew Wilson:** No worries, thanks, guys.

**Sam Miller:** Thanks, Matt. Our next question comes from Tom Strong from Citigroup.

**Tom Strong:** Thanks and good morning, it's Tom Strong from Citi. I just wanted to ask a follow-up question on the previous question on business banking, to start with. If we look at the transformation that you've undertaken in this business over the last couple of years, the external environment has changed considerably.

Even over the last 12 months we've seen business and agri credit system growth almost half and quite a bit more competition come into the space. Perhaps could you just comment on some of these target opportunities in markets that you've identified? Have you had to pivot at all in the last 12 months, just given how much external conditions have changed?

**Marnie Baker:** Yes, Tom, I think it's fair to say that we had to make some strategic priority decisions over the last few years about where we actually placed our investment. I think at the last half I spoke a little bit about the fact that our investment had gone into the mortgage side of our business and we really had started to fall a bit behind across both business and agri.

We took a decision that we needed to invest more into that business and refresh the business, because quite rightly, like you say, things are moving pretty quickly in that space. We haven't just gone back to the old way of doing things. We are actually looking at how we can use this refresh to not only meet the market but to hopefully leapfrog in some sense because we have some unique opportunities in relation to the communities in which we operate and that closeness and connection that we have to small business especially in those communities and our brand resonates really highly.

We just need to ensure that the experience that we're providing meets the expectations of our customers and our own expectations in what we want to deliver to our customers. We think that we've got a really quite significant opportunity and that's why we are investing now in that business. Hopefully half-on-half we will be able to continue to show you just the benefits and the outcomes from the investment that we're making.

**Tom Strong:** Great, thanks for that. If I could just ask another question on investment spend. That was broadly flat in the half, but if I look at the components at the Group level, we saw risk and compliance down 20% and an offset in growth productivity spend. Looking forward over the next couple of halves, what's the sustainable level or typical level, do you think, in risk and compliance? Shall we continue to see further growth in productivity and growth spend?

**Andrew Morgan:** Tom, I think it's hard to imagine a world at the moment where investment spend falls. I think given the transformation agenda that we've talked about this morning across a continuation of investing in digital lending, across a continued rebuild of business and agri and also really importantly, in digital deposits, the spend that we will continue to make will be around digital.

We're continuing to focus on productivity, so you'll continue to see that and as we sit here today, it's hard to imagine that risk and compliance spend is going to fall any time soon. So I think it's fair to say that overall I wouldn't expect to see a degradation or a reduction in our aggregate spend. The mix may well change over time, more so towards growth productivity in digital.

**Tom Strong:** Okay, that's helpful. Thanks very much.

**Sam Miller:** Thanks, Tom. Our next question comes from Ed Henning from CLSA.

**Ed Henning:** Thanks for taking my questions, a couple from me. Firstly on the margin, you mentioned the exit was above the half and you made some pricing changes late in the half. Considering you're planning on upping your growth rate in mortgages, you talked about very strong competition still coming through there, do you see yourself continuing the momentum in the margin into the second half? Or given the growth and what you're seeing in the market, you'll see the margin come back a little bit? That's the first one.

**Andrew Morgan:** Well, Ed, as we talked about, it's a pretty tricky market in which to forecast NIM right now. As we've done for the last couple of halves, we've laid out where we think the headwinds and the tailwinds are. Most of those are continuations of themes that we've seen play out over the last 12 months. The big unknown factor at the moment is, of course, the degree of competitive intensity, both in lending and in deposits.

We know that our replicating portfolio is delivering benefit, it's delivered benefit through this half and it should deliver similar-ish benefit into the next half. There are still too many unknown factors, I think, Ed, to give you a really good sense of things. As I talked about though, our exit NIM is above our second quarter average and so we start the second half in a pretty good position.

**Ed Henning:** Maybe then just to clarify why that's up. Is it just the rate change and the pricing moves that you made? Are the two key reasons why it's up?

**Andrew Morgan:** That's right, Ed. Through the cash rate rise we made certain changes in our pricing on the asset and the deposit side. We found that given our liquidity position we could ease back a little bit in some deposit markets in particular, so we saw a benefit play out in our exit NIM.

**Ed Henning:** Okay, maybe I might push my luck a little bit further on that. If you exclude those benefits that you made around the cash rate change, how is your margin then? Was it flat, down or up?

**Andrew Morgan:** They were your words, Ed, pushing your luck. I might just leave my comments there.

**Ed Henning:** Second one just on costs, a couple of things here. I want to clarify, (1) you walked away from your '24 guidance, which it looks like you have. Then secondly, today - before you touched on investment spend. You look to be doing a lot, new systems coming online. Is that – are you going to [sit] your overall investment spend up? Given new systems are coming online, I imagine your amortisation charge is going to go up?

Do you see increasing headwinds in '25 around cost? Or do you think you can get enough cost savings to offset it? If we think about going forward more growth, hopefully sub-inflation is where you are hoping to land.

**Andrew Morgan:** Ed, just to pick up those couple of questions, we would expect a stronger income growth than what's played out in the first half. That's pretty clear and that's part of the reason behind our degradation in the cost to income ratio. What we've laid out today is that we are targeting to grow our costs below inflation into the second half.

On your second question, on investment spend, I think it's fair to say that with likely no decrease in investment spend, and given the nature of the spend that we're making which is more long-term, which means it's more likely than not to be capitalised, that will provide a headwind in respect of amortisation. This is why the work that we're doing around cost management and productivity is so important because we know we've got to get ahead of that. So, our work that you've seen play out through this half will continue.

**Ed Henning:** Thank you.

**Sam Miller:** Thanks Ed. Our next question is from Victor German from Macquarie.

**Victor German:** Good morning and thank you. I wanted to get your thoughts on deposits. We've seen about $1 billion shift from transaction accounts to TDs and a similar trend that we're doing elsewhere in the market. Just interested in your thoughts of how you expect that to play out over the next six months or so?

I also know that you've increased your replicating portfolio quite substantially over the last couple of years. Just interested in your observations on whether you think the current level is sustainable given what we're observing in transaction deposit market and whether there is a potential risk that you will need to scale downsize of your replicating portfolio over time?

**Marnie Baker:** I'll let you talk about the replicating portfolio, Andrew, and also a bit about deposits. In relation to the deposits, the areas that we are growing in - and whilst we have seen quite a shift between call deposits and term deposits, our growth areas like Up deposits, is actually predominantly savings accounts so has seen a skew towards savings accounts.

We've now opened up further for our Bendigo Bank customers online, both around term deposits and savings accounts. Andrew referred to it earlier when he spoke about what is one of our most popular savings accounts, Easy Saver, 60% of that is now coming through our digital channels. They are – that's new channels for us in relation to our savings accounts. It's hard to give a view because this comes down to customer preference of course, but the channels that we are now growing in do skew a little bit more towards savings.

We'll see how that does play out in the coming periods, Andrew?

**Andrew Morgan:** Thanks Marnie. To pick up on some things that Marnie's just talked about. Victor, you're right, the reduction in transaction accounts through the course of the half is broadly similar in a relative sense to what we saw in the prior half. What's changed in this half, and it's quite pleasing to see, is that we – whilst there's still switching going on between transaction accounts, term deposits and savings accounts, what we're now seeing, particularly through the last quarter, is more customers are choosing to move into a savings account rather than term deposit. A higher proportion of that switching is now going into savings accounts, as opposed to term deposits. That's really pleasing to see.

On your second question, on replicating portfolio, I'll just remind you that the portfolio, particularly for deposits, is 80% hedged, so 20% remains overnight. The other factor is it's a 60-month tractor, so every month that goes by, the back tractor falls off and a front tractor comes on.

What that means is that as our transaction account volumes have declined, we've been able to bring the scale of the replicating portfolio as it relates to low-rate sensitive deposits, down in line. We continue to be able to do that, and we continue to monitor it very closely to make sure that the replicating portfolio and transaction accounts are broadly aligned in coverage.

**Victor German:** That makes perfect sense. Should we be thinking about that 80% ratio as being broadly the appropriate ratio? I wasn't implying that you need to un-hedge the existing deposit, but do you expect that trend to – the size of the replicating portfolios to decline over time?

**Andrew Morgan:** We made, Victor, a number of changes to our replicating portfolio settings a couple of years ago, and we disclosed that to market. I would describe our structure of the portfolio now as broadly in line with the rest of the industry. An 80/20 split is consistent, and it's in line with APRA guidance. In respect of the way that the portfolio is structured, we believe it's appropriate. In respect of the size of the portfolio, again with the tractoring effect, if you like, will continue to reset the size of the portfolio as and when required.

**Victor German:** Thank you.

**Marnie Baker:** Thanks Victor. I'd like to welcome back Brian Johnson for our next question, from MST.

**Brian Johnson:** Hi there, can you hear me?

**Andrew Morgan:** Yes.

**Marnie Baker:** Yes.

**Andrew Morgan:** Morning Brian.

**Brian Johnson:** Fantastic, thank you. Unusual to get a welcome back. I have two questions if I may? The first one is in the wake of Silicon Valley Bank, we've had all kinds of noise from APRA about potentially changing what is deemed to be a systemically important bank interest rate risk in the banking book for regional – or certainly for smaller players.

Andrew, could I just get a feeling as to how you allocate capital, and would that potentially change, either positive or negative, if those changes were to come through? Do you have the pricing power to pass it on if it does come through?

**Andrew Morgan:** Sure. I might pass over to Taso to give a couple of comments on this one. Taso?

**Taso Corolis:** Thanks Andrew. Brian, in terms of interest rate risk and the banking book, there's probably two parts. We're currently on the standardised approach for capital, but internally we run IRRBB models, similar to the majors. At any point in time we know where we are from an IRRBB perspective. In terms of potential changes off Silicon Valley, we've assessed our portfolio through stress testing and other mechanisms, and we don't have any concerns at this stage.

**Brian Johnson:** That's not withstanding the fact that your core equity target is 25 basis points below BOQ's?

**Andrew Morgan:** When you say core equity target?

**Brian Johnson:** Your target is 10 to 10.5, theirs is 10 25 to 10 75.

**Marnie Baker:** They're decisions that are made by the Board, in consultation with our regulators etc. We can't comment on what BOQ's target is, but our Board's really comfortable with the target that we have of 10 to 10.5.

**Brian Johnson:** Marnie, is that right at the very bottom end of the range? We think that you probably prudently run a little bit of a buffer to it?

**Marnie Baker:** They're not things that we generally comment on, BJ, but thanks for the question and welcome back.

**Brian Johnson:** Thank you, I'm staggered. Just a second question, if I may? If I have a look at note 16 in the results, and Andrew, you and I have spoken about this a number of times. We've still got a goodwill balance of $1.5 billion. You're earning below your cost of capital. Why not take the hit upfront? Why haven't we seen this impaired?

That's one way you can get to earn your cost of capital is by writing down the capital balance. Can we just get a feeling on the logic as why that has not been impaired, despite the fact you're earning below your cost cap?

**Marnie Baker:** The easy answer there is that we have to make the accounting standards, in relation to that.

**Andrew Morgan:** Brian, we have spoken about this a few times, and as you probably know there are very clear tests that we run in respect of impairment. We manage, and we have to value our – what's called our cash generating units. We look at the fair value minus cost to sell, and we've got to compare that to the carrying value. If that fair value minus cost to sell is below the carrying value, then that gives rise to an impairment.

The tests that we run, the valuation tests that we run which go through our boards, would suggest at the moment that there's no impairment.

**Brian Johnson:** Okay, and if I push my luck with one final one. You've been talking a lot today about the move toward the digital channel, and I think Ben is genuinely to be congratulated on making that transition somewhat faster. Can we just get a feeling on the pricing through that channel of home loans and deposits, versus through the branches, and how you think that might change when we see ANZ basically ramp up through the broker channel?

**Marnie Baker:** As we sit here today, Brian, there really isn't a differential between the channels. We don't necessarily provide a preference of channel and in fact the digital channels, people are looking for other things outside of price as well. We will remain competitive, we need to, to be a part of the market. But at this stage – and we're – until such time as we see others move more fully into that channel, it's pretty consistent with our other channels. It's the cost base that actually changes, as opposed to the pricing.

**Brian Johnson:** Thank you very much.

**Sam Miller:** Thanks Brian. Our next question is from Jeff Cai from Jarden.

**Jeff Cai:** Hello, good morning. Just a follow-up question on business banking. I understand that you're part-way through in the rebuild of that business, but typically there's a bit of a long lead time between investment and returns. Interested in your thoughts on when should we expect the step change in volume growth from that business? Is it more likely FY26? Or could it be a bit longer than that? Thank you.

**Marnie Baker:** Thank you for the question. Yes, you will generally see that we are sequencing the initiatives within that program of work so that we're not waiting a full couple of years, for example, to actually start to see the benefits. We're bringing some things in early so that we can get some benefit early, but you're right. It will take some time as we're implanting things like origination systems and CRMs, which are targeted for this year.

Once we get those things in, you'll see process efficiencies and that creates much better outcomes in growth and productivity, but we're not waiting for that. We've restructured the team, we've done a lot of work around creating a performance culture in that team, and we're out there writing business. We've seen some really good green shoots, and especially toward the last half. I don't think we're going to have to wait a long period of time to start getting the benefit.

**Jeff Cai:** Got it. Just a quick clarification on the lending pricing drag for this half. How much of that is due to back book discounting and your retention efforts?

**Andrew Morgan:** Jeff, that's not something that we're disclosing. What I think I said on the call was, it is mostly related to variable rate as opposed to fixed rate. About 6 of that 8 basis points is variable rate pricing, and the remaining 2 is fixed rate.

**Jeff Cai:** Got it, thank you.

**Sam Miller:** Thanks Jeff. Our next call is from Matt Dunger from Bank of America.

**Matt Dunger:** Thank you very much, Marnie and Andrew, for taking my questions. On that 8-basis-point drag on the NIM, it was the same in the second half of '23, and given some of the pricing discipline and the tailwinds you've been talking to on fixed rate maturities, why haven't we seen an improvement in the half?

**Andrew Morgan:** I think it's fair to say, Matt, that we're starting to see some improvement. It's something that I know others have talked about, which is this difference between front book and back book. Whilst our front book margins are still below back book, that trend is turning. In particular, in the second quarter of the half, that's started to turn. I think it's an averaging affect that will play out, but at least it's starting to go in the right direction.

**Matt Dunger:** Understood, thank you. If I could just ask a follow up on the costs? No increase in the investment spend in the first half of '24, but to get to sub-inflation cost growth and assuming you need to pick up some investment spend, are we going to see more productivity savings coming through in the second half? Perhaps you could talk about the timing of some of those FTE reductions that you've called out?

**Andrew Morgan:** Yes, the FTE reductions that I've talked about were later in the half. That gives us some benefit into the second half, but our work on cost and productivity has been ongoing now for 18 months. It's not just about reducing FTE. It's also about, for example, negotiating contracts with suppliers and looking for better terms.

Sometimes it's about taking wasteful cost out of the organisation. There are multiple ways that we can do this, and our work absolutely continues.

**Matt Dunger:** Thank you very much.

**Sam Miller:** Thanks Matt. Our next question is from Nathan Zaia from Morningstar.

**Nathan Zaia:** Morning, Marnie and Andrew, just two quick questions. Firstly on business and agri. Have credit risk settings been overly prohibitive? Has that played a role in market share loss also?

**Marnie Baker:** Hi, Nathan, and thank you. As part of the refresh we are looking at our credit policies and looking to see whether we do have – and we think we do actually, have some headroom within our current risk appetite. That's a part of the refresh. Whether that has hindered us, I think there's other factors that have hindered us which goes more to our systems and processes.

**Nathan Zaia:** Okay. Is there anything else you can provide on a percentage of your new home loan customers that come from your deposit customer base, that have never had a loan with Bendigo? I'm just trying to think about potential upside over the medium term from all the savers you are currently attracting.

**Marnie Baker:** Yes, we'd have to actually have a look into the data for that, Nathan, except to say that anything that's written through Up, for example, where I think it's 83% - it might even be higher than that. Upsiders are actually new to bank so there's no crossover with the Bendigo Bank or our other brand – other brands. Anything that's written there is actually new to bank, but we could have a look at those numbers, yes.

**Nathan Zaia:** Okay, thanks, Marnie.

**Sam Miller:** Thanks Nathan. Our next question come from Jon Mott from Barrenjoey.

**Jonathan Mott:** One question. Looking at investment spend, and this is more of a top-down view. The amount of work that you've done over the last couple of years is pretty phenomenal, if you think about rolling out a new broker system, digital mortgages, digital deposits, agri-business banking, cyber, new core banking system. Add to it all the risk and compliance. Yet the spend each year is only running at just over $210 million per annum.

The major banks are spending upwards of $1.5 billion to $2 billion to achieve a lot of the same or not even as much. I wanted to get a feel for how you're doing it. Are you actually with a smaller team, just punching above your weight? Or how are you actually achieving this, without the economy to scale that you presumably get in a major bank with a budget of a fifth the size?

**Marnie Baker:** Yes, I think it's – it is a question that we do get all the time, but I think being smaller than the majors means that you actually can be a little more nimble in relation to how you go about any of these big, large investment projects. Dare I say, there's less wastage in the medium to smaller banks, I think, because you're really conscious about every dollar that you're spending.

I think we're really smart about how we go about it, and we've got a great team within our organisation, who are working really hard to get the benefits and the outcomes for our customers and our shareholders.

**Jonathan Mott:** Yes, well done. Thank you.

**Sam Miller:** Thanks, Jon. We've got our final question now from Azib Khan from Evans & Partner.

**Azib Khan:** Hi Sam, can you hear me okay?

**Sam Miller:** We can, thanks, Azib.

**Azib Khan:** Excellent. Firstly, I just wanted to check my understanding is correct with regards to the rationalisation of the core banking system. You'll be moving from four to one. Is my understanding correct that you will be moving to one of the existing core banking systems, as opposed to building a new one?

**Marnie Baker:** Yes, we are, we're moving to the Bendigo Bank core banking system. It made sense for that to be our target system that we're moving to, just given that the majority of our customers were on that core banking system. I think it's worth saying - and that banking system has been around for a number of years, but I think it's worth saying at the same time we are pulling apart that system in a sense of actually modularising.

We're building on new technologies at the front end, around CRMs and CISs, and collateral management systems et cetera. The core banking system itself is really just the recorder of the transactions, and the reconciliation to the general leger etc. Most of the other things, our pricing modules, product modules and so forth, are actually sitting in very new technology.

**Azib Khan:** Can I then just reconcile that with one of Andrew's earlier comments that – I think I heard Andrew say earlier that there will be a continued build in capitalised software as you build out longer dated systems. From that you won't be building a new core banking system. Does that – did that comment really relate to the modularising the existing Bendigo Bank system that you've just referred to?

**Andrew Morgan:** That's right, Azib. What I referred to is build that is able to be capitalised, that's not related to core banking. There is some cost associated with the migration of core banking platforms, it doesn't come at zero cost, but we will see over time more spend being directed is to some of the new functionality that Marnie talked about earlier.

**Marnie Baker:** Yes, and it's not only the current cost that you save by having – not having multiple core banking systems, but it's also the costs that you don't get in the future by having to apply things like regulation across multiple systems, or changes to products across multiple systems, those sort of things. We're thinking about the future, not only the existing cost base but also thinking about the future and making sure that we're setting up to ensure that you have a much more sustainable business.

**Azib Khan:** A second question on that. As you embark on the migration of – to the Bendigo core banking system, is it fair to say the percentage of investment spend that will be expensed up front will rise?

**Marnie Baker:** We've become pretty good. As you can see, we've gone from eight to four core banking systems. We've got a really good team within the organisation, who have been working through this, which is not only in the technology area, but it actually flows through of course into the front line as well, because we're ensuring the experience – there's an uplift in the experience as a result of this.

We're seeing those sort of benefits come through, and I think because we've got so good at it, it's – we're rolling through them now, albeit that the last two core banking systems probably house the most number of customers.

**Andrew Morgan:** To pick up on Marnie's answer there, it really comes down to the nature of the spend that we're incurring. If we're building an asset and we're configuring it, then it's typically something that we would capitalise. If it's more in the nature of – like a software as a service, then that would be more so expensed. If it's around things like risk and compliance, then typically you would see a high proportion of expense rather than capitalisation.

**Azib Khan:** I've also got a question around the Rural Elders partnership. I'm interested to know whether one of the parties chose to end the relationship, and why that relationship was ended? Will Rural be seeking a new distribution partner?

**Marnie Baker:** Yes, it was a mutual decision that was made between Elders and ourselves. We're both looking at our own strategic journeys that we're on and it made sense that we discontinued and exited that relationship. We're focussing any other partnerships – we are focussing really on the strategy that we've spoken about earlier, about implementing, and the organic growth. I think we can get through the existing channels that we have at the moment. Like I said, we've underinvested in that side of the business, and I think we've got a lot of latent opportunity through our existing channels.

**Azib Khan:** Thank you.

**Sam Miller:** Thanks Azib. Marnie, hand over to you.

**Marnie Baker:** Thanks Sam. I won't get back up on the podium, but I want to thank everyone for joining us today. You can see a replay of this webcast on our website at bendigoadelaide.com.au. I thank everyone for their questions today and we look forward to speaking with you further over the coming few days, thank you.

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