

1H FY25 Analysis

Regional strength meets digital acceleration amid transformation journey

KEY HIGHLIGHTS

- Cash earnings decreased 1.1% YoY to \$265.2m while statutory profit declined 23.2% to \$216.8m for the half-year ended December 2024.
- Residential lending grew 5.3% for the half to \$65.2b, performing above system with market share increasing 9bps YoY to 2.79%.
- Consumer segment was the standout performer with cash earnings rising 6.0% YoY, while Business & Agribusiness earnings declined 7.8%.
- Net interest margin expanded 5bps YoY to 1.88%, though normalized margins declined 6bps from the prior half.
- Cost-to-income ratio deteriorated 370bps YoY to 61.5%, with operating expenses increasing 8.3% to \$598.4m.
- Credit quality remains sound with a \$10.5m provision write-back and gross impaired loans declining to 0.15% of gross loans.
- CET1 ratio of 11.17% remains well above regulatory requirements despite a 15bps decline from June 2024.
- Digital banking growth accelerated with Up customer base exceeding 1 million (13.2% growth) and digital deposits growing 27%.

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GLOSSARY OF KEY TERMS

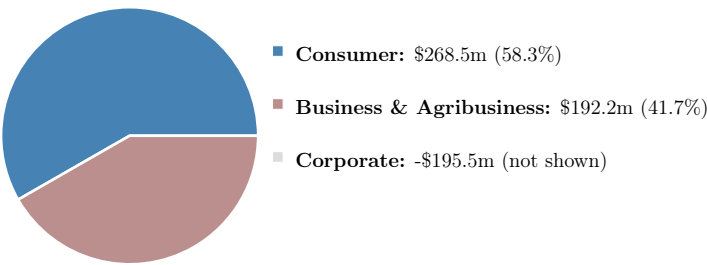
NIM	Net Interest Margin; difference between interest earned and paid, expressed as percentage of interest-earning assets.
Cost-to-Income	Operating expenses divided by total income; key efficiency metric for banks.
CET1 Ratio	Common Equity Tier 1 capital as percentage of risk-weighted assets; primary measure of bank capital strength.
Community Bank	Bendigo’s unique partnership model where banks share profits with local communities.
Up	Bendigo’s digital banking platform targeting younger customers with innovative mobile experience.
Transformation	Bendigo’s program to consolidate systems, enhance digital capabilities, and improve efficiency.
B&A	Business & Agribusiness; segment providing banking services to businesses and agricultural sector.
ROE	Return on Equity; net income divided by shareholders’ equity, measuring profitability.

1 Executive Summary

Bendigo and Adelaide Bank reported cash earnings of \$265.2 million for 1H25, a 1.1% decrease YoY, while total income grew 1.6% to \$972.4 million. The bank's performance reflected a divergence between segments, with Consumer earnings increasing 6.0% YoY while Business & Agribusiness declined 7.8%. Residential lending grew 5.3% for the half to \$65.2 billion, outperforming the market with a 9bps YoY increase in market share to 2.79%. The bank's digital growth engine, Up, reached over 1 million customers, growing 13.2% for the half.

Operational metrics presented mixed signals, with net interest margin improving 5bps YoY to 1.88% but normalized margins declining 6bps from the prior half. The cost-to-income ratio deteriorated to 61.5% from 57.8% in 1H24, driven by an 8.3% increase in operating expenses to \$598.4 million. Credit quality remained sound with a \$10.5 million provision write-back and impaired loans declining to 0.15% of gross loans. Capital position remained strong with a CET1 ratio of 11.17%, supporting the bank's transformation program aimed at consolidating to a single core banking system by the end of 2025.

1.1 Cash Earnings by Segment Distribution (1H25, \$m)



Note: Corporate segment loss of \$195.5m is excluded from the pie chart. Total positive segment earnings sum to \$460.7m before corporate allocation.

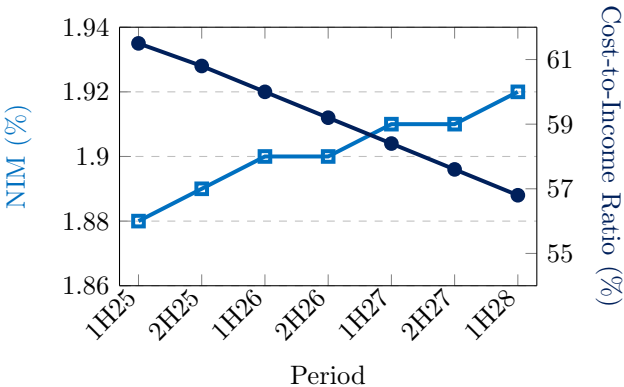
2 Outlook

Bendigo and Adelaide Bank's trajectory will be shaped by its transformation program, scheduled for completion by end-2025. Management expects this core banking system consolidation to improve operational efficiency, though the current cost-to-income ratio of 61.5% remains well above the 50% medium-term target.

The interest rate environment is a key factor, with management anticipating rates to remain elevated until mid-2025 before three cuts to 3.6% by year-end. This normalization should gradually alleviate margin pressure, which has compressed NIM to 1.88%. Digital banking will continue driving customer acquisition, with Up's customer base projected to maintain strong growth following its 13.2% expansion to over 1 million customers in 1H25.

The Business & Agribusiness segment faces ongoing challenges, with management targeting a return to growth only in FY26, acknowledging the 7.8% earnings decline in 1H25. Credit quality is expected to normalize from the current benign environment, with management anticipating "residential arrears to gradually increase and bad debts to move toward longer-term averages" from the current write-back position of \$10.5 million.

2.1 NIM & Cost-to-Income Ratio Projection



Bendigo's improving NIM trajectory reflects anticipated interest rate normalization from mid-2025 onward, gradually alleviating deposit pricing pressure. Meanwhile, the cost-to-income ratio is projected to improve steadily but remain above management's 50% medium-term target through FY28, as transformation benefits materialize incrementally following core banking system consolidation. These dual metrics illustrate both the opportunity and challenge confronting the bank: margin expansion supporting revenue growth while efficiency improvements lag management expectations.

### 3 Valuations

Our valuation employs a dividend discount model (DDM) as primary approach, reflecting Bendigo's consistent dividend payout. This is supplemented with DCF analysis to capture value from the transformation program and digital initiatives, along with standard banking sector metrics including P/B and P/E multiples.

The valuation uses a 12.8% cost of equity, incorporating a 4.0% risk-free rate, 6.0% equity risk premium, beta of 1.15, and premiums for size (0.7%) and transformation execution risk (1.2%). Key financial projections include revenue growth accelerating from 1.6% to 4.7%, NIM expanding from 1.88% to 1.94%, and cost-to-income ratio improving from 61.5% to 54.2% by period end.

These methodologies yield a range of values reflecting different perspectives on the bank's future. DCF emphasizes long-term transformation benefits, while multiple-based valuations focus on near-term metrics. Precedent transactions analysis provides context on the strategic value of Bendigo's community banking model and digital capabilities.

Methodology	Implied Price Per Share
DCF - Base Case	\$15.25
DCF - Bull Case	\$18.75
DCF - Bear Case	\$12.25
52-Week Trading Range	\$9.50 - \$12.25
Consensus Price Target Range	\$10.75 - \$13.00
EV/EBITDA Multiple - NTM	\$17.33
P/E Multiple - NTM	\$11.64
P/B Multiple	\$13.72
PEG Ratio (P/E to Growth)	\$10.19
Precedent Transactions	\$15.59
<b>Implied Valuation Range</b>	<b>\$12.25 - \$15.75</b>
<b>Current Share Price</b>	<b>\$11.50</b>

The valuation table presents methodologies yielding a wide range of outcomes, reflecting divergent perspectives on Bendigo's future performance. The DCF valuations (base, bull, bear) illustrate different scenarios for transformation execution and resulting efficiency gains. The P/E multiple of \$11.64 and PEG ratio of \$10.19 reflect market skepticism about near-term earnings growth, while the EV/EBITDA multiple of \$17.33 assigns higher value to the bank's asset base and potential operating leverage. The P/B multiple of \$13.72 sits between these extremes, acknowledging both the tangible value of the lending franchise and the bank's below-peer returns on equity. Precedent transactions suggest strategic acquirers may assign premium valuations to the bank's unique community banking model and growing digital franchise.

### 3.1 Sensitivity Analysis

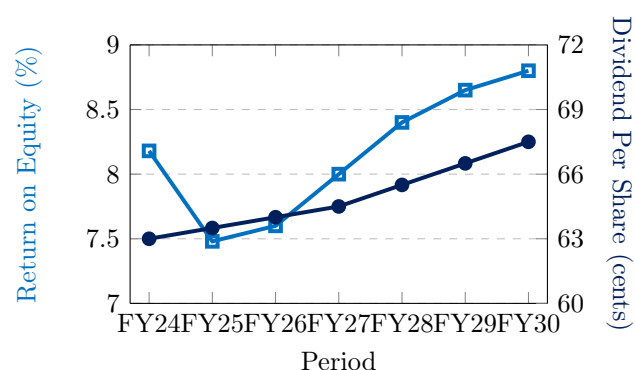
The valuation of Bendigo and Adelaide Bank demonstrates significant sensitivity to several key variables, with transformation execution and resulting efficiency improvements representing the most critical factor. The pace and magnitude of cost-to-income ratio improvement directly impacts free cash flow generation, with each 100bps change in the terminal cost-to-income ratio affecting the valuation by approximately \$0.75 per share. This sensitivity underscores the importance of management's ability to deliver on cost efficiency targets, particularly given the recent contradiction between the stated goal of inflation-level cost growth and actual expense growth of 8.3% in 1H25.

Net interest margin expansion represents the second most impactful variable, with each 5bps change in terminal NIM altering the valuation by approximately \$0.60 per share. This sensitivity reflects the dual challenges of competitive pressure in both lending and deposit markets, as well as the uncertain timing of interest rate normalization expected from mid-2025 onwards. Credit expense normalization timing also significantly influences valuation, with each 5bps change in the credit expense ratio impacting the valuation by approximately \$0.55 per share. Management's expectation that "residential arrears will gradually increase and bad debts move toward longer-term averages" creates uncertainty about the pace of this normalization from the current write-back position.

Factor	Change	Impact
Terminal Cost-to-Income Ratio	+/- 100bps	-/+ \$0.75
Terminal Net Interest Margin	+/- 5bps	+/- \$0.60
Credit Expense Ratio	+/- 5bps	-/+ \$0.55
Residential Lending Growth	+/- 100bps	+/- \$0.45
Terminal Growth Rate	+/- 25bps	+/- \$0.40

The probability-weighted valuation of \$15.35 assigns 60% weight to the base case, with 20% each to bull and bear scenarios. The bull case (\$18.75) assumes successful transformation execution achieving a 51% cost-to-income ratio, NIM expansion to 2.05%, and superior credit quality management. Conversely, the bear case (\$12.25) envisions transformation falling short, with cost-to-income ratio improving only to 59%, margins compressed to 1.78%, and accelerated credit expense normalization. This scenario spread of 53.1% from bear to bull case indicates moderate uncertainty, primarily driven by execution risk and the uncertain interest rate trajectory.

## 3.2 ROE & Dividend Projection



Bendigo's ROE trajectory reflects initial pressure from transformation costs and credit normalization in FY25-26, followed by gradual improvement as efficiency benefits materialize. The projected ROE re-

covery from 7.48% in FY25 to 8.80% by FY30 remains below the bank's pre-COVID high of 9.25% and significantly trails major bank peers in the 11-13% range. This persistent gap reflects Bendigo's scale disadvantages and higher relative cost base despite transformation efforts.

Dividend growth is projected to maintain the bank's commitment to shareholder returns, with the payout ratio stabilizing in the 63-64% range. This approach balances maintaining attractive yield with retaining sufficient capital to support continued residential lending growth. The dividend trajectory assumes successful implementation of the transformation program, with cash flow conversion improving from 69% to nearly 89% of NOPAT as capital expenditure moderates following the 2025 completion of core banking system consolidation.

## 4 About the Company

### 4.1 Company Overview

Bendigo and Adelaide Bank (ASX:BEN) is Australia's better big bank and the only ASX 100 bank based in regional Australia. Established in 1858, it serves over 2.7 million customers through 7,000 employees, with the fourth largest branch network in Australia.

The bank operates through brands including Bendigo Bank, Up (digital), Leveraged (margin lending), and Rural Bank (agribusiness), structured into Consumer, Business and Agribusiness, and Corporate segments. Bendigo has the highest trust ratings in banking with an NPS of 22.0 (31.1 points above industry average).

Richard Fennell was appointed CEO in August 2024, with Vicki Carter as Board Chair. Leadership is focused on completing transformation to a single core banking system by end-2025 while growing residential mortgages above system rates.

### 4.2 Profitability Model

Bendigo and Adelaide Bank generates revenue primarily through net interest income (the difference between interest earned on loans and interest paid on deposits), which accounted for 85.8% of total income in 1H25 at \$834.7 million. This is supplemented by fee income, commissions, wealth management services, and foreign exchange transactions, which collectively contributed \$137.7 million or 14.2% of total income.

The bank's net interest margin stands at 1.88%, which is below the industry average for major banks typically in the 1.9-2.1% range, reflecting its competitive positioning and higher reliance on customer deposits.

The bank's loan portfolio is dominated by residential lending at \$65.2 billion (78.2% of total lending), with business lending at \$9.4 billion (11.3%) and agribusiness at \$6.7 billion (8.0%). Funding is primarily sourced from customer deposits, which represent 76.5% of total funding at \$72.0 billion, providing a stable but relatively higher-cost funding base compared to major banks. The Consumer segment is the primary earnings driver, contributing \$268.5 million in 1H25 (58.3% of positive segment earnings), followed by Business Agribusiness at \$192.2 million (41.7%), before a Corporate segment loss of \$195.5 million.

A distinctive feature of the bank's profitability model is its internationally recognized Community Bank model, developed in the late 1990s, which has returned \$366 million to communities since inception. This model enables the bank to maintain a strong presence in regional areas while building deep community relationships. Additionally, the bank is expanding its digital capabilities, particularly through Up, which has grown to over 1 million customers, demonstrating the bank's ability to balance traditional relationship banking with digital innovation. The cost-to-income ratio of 61.5% remains a challenge, significantly above the bank's medium-term target of 50% and the major bank average of 40-50%.

### 4.3 Tailwinds

**Digital Banking Momentum:** Bendigo's Up platform grew 13.2% to exceed 1 million customers, targeting younger demographics beyond traditional reach. Digital deposits grew 27% (25% of total growth), and digital mortgages reached 19.1% of settlements. This supports the "digital by design, human when it matters" strategy, improving acquisition economics and efficiency. Up outpaces many neobanks while benefiting from established banking infrastructure.

**Trust Advantage:** Bendigo maintains highest industry trust ratings (NPS 22.0, 31.1 points above average), attracting customers despite sometimes less competitive pricing. The Community Bank model has returned \$366 million to communities, reinforcing regional presence. Customer numbers grew 8% YoY to 2.7 million despite competition, showing resilience. As consumers increasingly value purpose-driven banking, this trust advantage supports sustainable customer acquisition and retention.

**Above-System Residential Growth:** Residential lending grew 5.3% to \$65.2 billion, increasing market share by 9bps to 2.79%. Consumer segment delivered 8.9% YoY lending growth, driving 6.0% earnings growth. This creates operating leverage potential once transformation completes. Broker relationships and improved processing position Bendigo to maintain above-system growth through FY26-27.

**Rate Normalization Benefits:** Interest rate cuts expected from mid-2025 (4.35% to 3.6% by year-end) should ease margin pressure. Bendigo's high deposit reliance (76.5% of funding) means greater benefit versus peers when competition eases. NIM declined 6bps to 1.88% but is projected to reach 1.94% by FY30, creating meaningful upside across the \$102.2 billion asset base.

### 4.4 Headwinds

**Cost Efficiency Challenges:** The cost-to-income ratio deteriorated to 61.5% (up 370bps YoY), far above the 50% target. Expenses increased 8.3% to \$598.4 million despite management's "no higher than inflation" goal. This undermines profitability with ROE declining to 7.55%. Higher software amortization, technology costs, and write-offs reflect both transformation investment and inflation. Core banking consolidation by end-2025 is the primary remedy, though the 460bps gap to target raises achievability questions.

**Business & Agribusiness Weakness:** Segment earnings fell 7.8% YoY to \$192.2 million from volume challenges (business -0.9%, agribusiness -4.9%) and margin compression (NIM -14bps to 3.02%). Credit expenses were \$5.0 million versus a previous \$6.5 million write-back. Growth is targeted only from FY26, with Operating Model Efficiencies as the main improvement strategy. This weakness is concerning as the segment historically provided diversification against housing cycles and higher margins than residential lending.

**Credit Normalization Headwind:** Despite current strong metrics (\$10.5 million provision write-back, impaired loans at 0.15%), management expects "residential arrears will gradually increase and bad debts move toward longer-term averages." This creates an earnings headwind offsetting efficiency improvements. High rates until mid-2025 will continue testing borrowers. Prudent underwriting and strong provisioning (\$368.5 million) provide some protection, but credit expenses will likely return to 15-20bps levels.

**Deposit Competition:** High rates have intensified deposit competition, particularly impacting Bendigo given its greater deposit reliance (76.5% of funding vs. majors' 60-70%). Deposit costs rose faster than lending yields, contributing to 6bps NIM compression. While deposits grew 5.4% to \$72.0 billion, successfully funding loans, this came at margin cost. High-yield product shift continues until rates decline from mid-2025. Mitigation relies on trust advantage and accelerating digital deposits to improve funding mix.



## 4.5 Competitive Landscape

Competitor	Competitive Positioning
<b>Bendigo and Adelaide Bank</b>	Australia's better big bank with the highest trust ratings in the industry (NPS 31.1 points above average) and unique Community Bank model that has returned \$366 million to communities since inception. Strong regional presence with fourth-largest branch network in Australia. Growing digital capabilities through Up (over 1 million customers), balancing traditional relationship banking with innovation. Smaller scale with cost-to-income ratio of 61.5% compared to major bank average of 40-50%. Residential lending market share of 2.79% growing above system.
<b>Commonwealth Bank (CBA)</b>	Australia's largest bank with approximately 25% mortgage market share and 21% of deposits. Technological leadership with best-in-class digital banking capabilities and extensive data analytics. Strongest capital position among major banks enabling consistent shareholder returns. Premium valuation reflecting scale advantages and superior returns on equity (15-16%). Higher regulatory scrutiny following historic compliance issues. Comprehensive product suite serving all market segments.
<b>National Australia Bank (NAB)</b>	Business banking leadership with approximately 23% of business lending market. Strong corporate relationships and specialized industry expertise. Improved technology platform following significant investment cycle. Approximately 15% market share in both mortgages and deposits. Increasing focus on acquisition opportunities including potential regional bank consolidation. Less retail branch presence than CBA or Westpac, mitigated by digital investment.
<b>Westpac (WBC)</b>	Second-largest Australian bank with approximately 20% of mortgages and 19% of deposits. Improved technology platform following significant remediation investments. Higher cost base than peers with ongoing simplification program aimed at reducing complexity. Strong presence in both consumer and business banking segments. Recovering from past regulatory issues with renewed focus on core banking activities following divestment of non-core businesses.
<b>Bank of Queensland (BOQ)</b>	Regional bank with owner-manager branch model similar to Bendigo's Community Bank approach but smaller scale. Approximately 2.5% of mortgage market with declining share in recent periods. Higher cost-to-income ratio than Bendigo (65-70%). Digital transformation lagging peer banks with limited success in digital customer acquisition. Queensland concentration creating geographic risk versus Bendigo's more diversified footprint. Struggling to achieve scale efficiencies with profitability metrics declining.

In the competitive Australian banking landscape, Bendigo occupies a distinctive middle-market position as the only ASX 100 bank based in regional Australia. The market is dominated by the "Big Four" banks (CBA, NAB, Westpac, ANZ) controlling approximately 75% of mortgage lending, while smaller challengers like Bendigo compete on differentiation. Bendigo's residential lending market share increased 9bps YoY to 2.79%, while business lending share declined 10bps to 1.28%, reflecting Consumer segment focus.

Bendigo's key competitive advantage is its trusted positioning, with the highest industry NPS at 22.0 (31.1 points above average). This trust enables customer attraction despite sometimes less competitive pricing. The Community Bank model has returned \$366 million to communities since inception, reinforcing regional differentiation. Bendigo has also developed strong digital capabilities through Up (over 1 million customers), balancing traditional relationship banking with innovation.

Primary disadvantages stem from smaller scale, with a cost-to-income ratio of 61.5% versus major banks' 40-50%. This creates profitability challenges, with ROE of 7.55% trailing majors' 11-15%. Higher reliance on customer deposits (76.5% of funding versus majors' 60-70%) increases vulnerability to deposit competition and margin pressure. The transformation program aims to address these scale issues, though recent 8.3% expense growth suggests limited progress.

Compared to Bank of Queensland, Bendigo shows stronger execution in residential lending growth and digital transformation. Bendigo's above-system mortgage growth contrasts with BOQ's declining share, and Up outpaces BOQ's digital initiatives. Against major banks, Bendigo competes primarily on trust rather than product breadth or technological sophistication, with CBA's digital leadership presenting a potential competitive threat.

## 5 Latest Results & Updates

Bendigo and Adelaide Bank reported cash earnings of \$265.2 million for the half-year ended December 2024, down 1.1% compared to the prior comparative period, while statutory profit declined 23.2% to \$216.8 million. Total income increased 1.6% to \$972.4 million, driven by 2.6% growth in net interest income to \$834.7 million. This modest revenue growth was outpaced by an 8.3% increase in operating expenses to \$598.4 million, contributing to a 370 basis point deterioration in the cost-to-income ratio to 61.5%. Management attributed the expense growth to "investment in technology capabilities and operational resilience" as well as "extended timeframes for realization of benefits from strategic investment."

Balance sheet expansion continued with total assets increasing 4.1% for the half to \$102.2 billion, supported by 3.5% growth in net loans to \$83.4 billion. Residential lending was the primary growth driver, expanding 5.3% to \$65.2 billion, while business lending declined 0.9% to \$9.4 billion and agribusiness lending fell 4.9% to \$6.7 billion. Customer deposits grew 5.4% to \$72.0 billion, outpacing lending growth and strengthening the bank's funding position. Credit quality remained sound with a \$10.5 million provision write-back, compared to a \$10.8 million expense in the prior comparative period, though management noted expectations for "residential arrears to gradually increase and bad and doubtful debts to move toward longer-term averages."

Key Metrics	1H25	1H24	Chg%
Cash earnings after tax (\$m)	265.2	268.2	-1.1%
Statutory earnings (\$m)	216.8	282.3	-23.2%
Total income (cash basis, \$m)	972.4	956.8	+1.6%
Net interest income (\$m)	834.7	813.6	+2.6%
Operating expenses (\$m)	598.4	552.7	+8.3%
Credit expenses (\$m)	-10.5	10.8	n/m
Net interest margin (%)	1.88%	1.83%	+5bps
Cost-to-income ratio (%)	61.5%	57.8%	+370bps
Cash earnings per share (c)	46.9	47.4	-1.1%
Return on equity (cash basis, %)	7.55%	7.67%	-12bps
Dividend per share (c)	30.0	30.0	0.0%
Total assets (\$bn)	102.17	96.19	+6.2%

The results reflect Bendigo's continued balance sheet growth and solid asset quality, offset by escalating costs associated with the transformation program. Net interest margin improved 5 basis points year-on-year to 1.88%, though normalized margins declined 6 basis points from the prior half due to deposit competition. The maintained dividend of 30.0 cents per share represents a payout ratio of 64.0%, indicating management's confidence in the bank's capital position despite margin pressures. The divergent performance between Consumer (earnings +6.0%) and Business & Agribusiness (earnings -7.8%) segments highlights the bank's increasing reliance on residential

mortgages as its primary growth engine, with digital capabilities including Up bank (now exceeding 1 million customers) supporting continued customer acquisition momentum.

### 5.1 Performance by Segment

Bendigo and Adelaide Bank's segment performance in 1H25 revealed significant divergence, with the Consumer segment delivering strong results while Business & Agribusiness declined and Corporate costs increased.

Consumer	1H25	1H24	Chg%
Cash Earnings (\$m)	268.5	253.4	+6.0%
Total Income (\$m)	567.5	555.5	+2.2%
Operating Expenses (\$m)	179.4	168.7	+6.3%
Credit Expenses (\$m)	-1.3	14.3	n/m
Total Lending (\$bn)	63.9	58.9	+8.4%
Total Deposits (\$bn)	48.2	44.7	+7.8%
NIM after Revenue Share (%)	1.77%	1.78%	-1bps
Business & Agribusiness	1H25	1H24	Chg%
Cash Earnings (\$m)	192.2	208.4	-7.8%
Total Income (\$m)	363.6	375.2	-3.1%
Operating Expenses (\$m)	82.6	76.6	+7.8%
Credit Expenses (\$m)	5.0	-6.5	n/m
Total Lending (\$bn)	19.7	19.2	+2.3%
Total Deposits (\$bn)	21.7	21.9	-0.8%
NIM after Revenue Share (%)	3.02%	3.16%	-14bps
Corporate	1H25	1H24	Chg%
Cash Earnings (\$m)	-195.5	-193.4	-1.1%
Total Income (\$m)	41.3	25.9	+59.5%
Operating Expenses (\$m)	336.4	307.4	+9.4%
Credit Expenses (\$m)	-14.2	3.0	n/m

The Consumer segment was the standout performer, with cash earnings increasing 6.0% year-on-year to \$268.5 million. This growth was driven by residential lending expansion of 8.9% year-on-year and increased savings accounts including offset accounts (+16.1% year-on-year). The segment's total lending grew 8.4% year-on-year to \$63.9 billion, while deposits increased 7.8% to \$48.2 billion. Net interest margin after revenue share remained relatively stable at 1.77%, just 1 basis point below the prior comparative period. Digital banking through the Up brand achieved 13.2% customer growth to over 1 million customers, demonstrating successful digital acquisition. However, operating expenses increased 6.3% year-on-year, somewhat offsetting revenue gains. The segment benefited from improved credit quality, with a \$1.3 million provision write-back compared to a \$14.3 million expense in the prior comparative period.

The Business & Agribusiness segment faced challenges, with cash earnings declining 7.8% year-on-year to \$192.2 million. Performance was negatively

impacted by margin compression, with net interest margin after revenue share falling 14 basis points to 3.02%. Total income decreased 3.1% year-on-year to \$363.6 million, reflecting both margin pressure and reduced volumes in agribusiness lending (-4.9% for the half). Operating expenses increased 7.8% year-on-year, and credit conditions deteriorated with a \$5.0 million credit expense compared to a \$6.5 million write-back in the prior comparative period. Management attributed this to "alignment of default definitions in the collective provision as prescribed by APS220" and is targeting a return to growth for this segment in FY26.

The Corporate segment, which includes treasury, technology, and support functions, recorded a cash loss of \$195.5 million, a slight deterioration from the prior comparative period loss of \$193.4 million. Operating expenses increased 9.4% year-on-year to \$336.4 million, reflecting investment in software licensing, cloud costs, amortization, and cyber and fraud risk capabilities. The segment recorded significant credit reversals of \$14.2 million, primarily due to reduction in collective provision overlays. Staff numbers increased 4.7% year-on-year to 1,954 FTE, demonstrating the bank's ongoing investment in technology and risk capabilities.

The segment-level performance highlights the increasing importance of the Consumer segment as Bendigo's primary earnings driver, contributing 58.3% of positive segment earnings in 1H25. This represents a strategic shift toward residential lending, which offers lower margins but greater growth potential in the current environment. The Business & Agribusiness segment's margin compression and volume challenges are concerning given its historically higher margin contribution, with management's FY26 growth target suggesting limited near-term recovery prospects. Meanwhile, the elevated Corporate segment expenses reflect the dual challenge of necessary transformation investment alongside rising compliance and technology costs, which the bank must manage to eventually achieve its ambitious 50% cost-to-income target.

Bendigo and Adelaide Bank maintained a robust balance sheet position in 1H25, with total assets increasing 4.1% to \$102.2 billion and net loans growing 3.5% to \$83.4 billion. This expansion was predominantly driven by residential lending, which increased 5.3% to \$65.2 billion, while business lending declined slightly (-0.9%) and agribusiness lending contracted more significantly (-4.9%). Growth in customer deposits outpaced lending expansion, rising 5.4% to \$72.0 billion and strengthening the bank's funding position. Customer deposits represented 76.5% of total funding, providing a stable but relatively higher-cost funding base compared to major banks.

Capital metrics remained strong, with the Com-

mon Equity Tier 1 (CET1) ratio at 11.17%, comfortably above regulatory requirements despite a 15 basis point decline from June 2024. Total equity rose modestly by 0.8% to \$7.1 billion, while risk-weighted assets increased 2.3% to \$38.9 billion, reflecting continued lending growth. Net tangible assets per share improved marginally to \$9.10, up 0.4% from December 2023. The bank maintained a dividend payout ratio of 64.0% with an interim dividend of 30.0 cents per share, unchanged from the prior comparative period.

## 5.2 Balance Sheet & Financial Position

Balance Sheet (\$m)	Dec 2024	Jun 2024	Chg%
Total assets	102,169.7	98,187.9	+4.1%
Net loans and receivables	83,356.8	80,567.6	+3.5%
Residential lending	65,200.0	61,900.0	+5.3%
Business lending	9,400.0	9,500.0	-0.9%
Agribusiness lending	6,700.0	7,100.0	-4.9%
Customer deposits	72,004.0	68,332.5	+5.4%
Total deposits	82,500.4	78,986.5	+4.5%
Total equity	7,093.1	7,034.0	+0.8%
Common Equity Tier 1 ratio	11.17%	11.32%	-15bps
Risk-weighted assets	38,870.9	38,005.2	+2.3%
Total provisions for credit losses	368.5	381.2	-3.3%
Gross impaired loans to gross loans	0.15%	0.17%	-2bps
Net tangible assets per share	\$9.10	\$9.06	+0.4%
Liquidity Coverage Ratio	135.2%	151.4%	-16.2ppts
Net Stable Funding Ratio	118.0%	119.7%	-1.7ppts

Liquidity metrics remained sound despite some moderation, with the Liquidity Coverage Ratio (LCR) at 135.2% (down from 151.4%) and the Net Stable Funding Ratio (NSFR) at 118.0% (down from 119.7%), both comfortably above regulatory minimums. Credit quality indicators improved, with gross impaired loans declining to 0.15% of gross loans (down from 0.17%) and total provisions for credit losses decreasing 3.3% to \$368.5 million, reflecting the current benign credit environment. Management noted these "sound" credit metrics but cautioned that "residential arrears will gradually increase and bad and doubtful debts move toward longer-term averages" as high interest rates persist.

Net cash from operating activities improved significantly to \$2,409.4 million, compared to an outflow of \$3,236.7 million in the prior comparative period, primarily due to increased deposit inflows. This strengthened cash position provides flexibility to support continued lending growth and transformation investment while maintaining regulatory capital and liquidity requirements. Overall, the balance sheet demonstrates stability and growth capacity, with particular strength in residential lending and customer deposits offsetting weakness in business and agribusiness segments.



### 5.3 Strategic Priorities & Progress

Priority	Status and Significance
<b>Reducing complexity through core banking consolidation</b>	<b>Moderate:</b> On track for completion by end-2025; Bendigo lending platform rolled out to broker partners and retail network trial implemented. Critical to achieving long-term efficiency targets but benefits not yet visible in cost-to-income ratio.
<b>Digital transformation and growth</b>	<b>Strong:</b> Up customer base exceeded 1 million (13.2% growth); digital mortgages comprised 19.1% of settlements; digital deposits grew 27%, representing over 25% of total deposit growth. Demonstrating successful execution of "digital by design and human when it matters" strategy.
<b>Above-system residential lending growth</b>	<b>Strong:</b> 5.3% growth for the half (8.9% YoY in Consumer segment), outperforming market with share gains of 9bps YoY to 2.79%. Successfully executed core growth strategy contributing to revenue expansion despite challenging market conditions.
<b>Business &amp; Agribusiness segment growth</b>	<b>Weak:</b> Segment earnings declined 7.8% YoY; business lending down 0.9% and agribusiness lending down 4.9% for the half. Management targeting return to growth only in FY26, indicating continued near-term challenges in this historically important segment.
<b>Cost management and efficiency</b>	<b>Weak:</b> 8.3% YoY expense growth vs. management target of "business-as-usual cost growth at no higher than inflation"; cost-to-income ratio deteriorated to 61.5% versus medium-term target of 50%. Significant gap between current performance and stated objectives raises questions about transformation implementation.
<b>Trust and customer experience leadership</b>	<b>Strong:</b> Maintained highest trust ratings in industry with NPS of 22.0 (31.1 points above industry average); customer base grew 8% YoY to 2.7 million. Community Bank model continues returning value to communities with \$366 million returned since inception.

Bendigo and Adelaide Bank's strategic priorities center on completing its transformation program while maintaining growth in targeted segments. The bank is executing well on residential lending growth and digital expansion, while facing challenges in cost management and the Business & Agribusiness segment. The cornerstone strategic initiative remains the consolidation to a single core banking system by the end of 2025, with progress evidenced by the rollout of the Bendigo lending platform to broker partners and trial implementation in the retail network. Management characterizes this transformation as "on track," though the benefits remain largely prospective rather than reflected in current efficiency metrics.

Digital capabilities continue to advance, with Up's 13.2% customer growth to over 1 million representing a significant milestone. Digital mortgages now comprise 19.1% of settlements, while digital deposits grew 27% for the half, representing over 25% of total deposit growth. This digital acceleration aligns with the bank's strategy of being "digital by design and human when it matters," successfully combining technological innovation with the bank's traditional community focus.

Cost management presents the most significant strategic challenge, with operating expenses increasing 8.3% year-on-year despite management's target of "business-as-usual cost growth at no higher than inflation." This has pushed the cost-to-income ratio to 61.5%, significantly above the medium-term target of 50%. Management attributes this to "investment in technology capabilities and operational resilience" as well as "extended timeframes for realization of benefits from strategic investment," suggesting the efficiency improvements remain more aspirational than realized at this stage of the transformation journey.

Looking forward, management is focused on completing the core banking system consolidation while maintaining above-system residential lending growth. The explicit targeting of Business & Agribusiness segment growth in FY26 acknowledges current challenges while establishing a clear milestone for recovery. The strategic priorities reflect a balanced approach to growth and transformation, though successful execution of cost management initiatives will be critical to achieving the bank's medium-term profitability objectives.

## 6 Financial Forecasts

BENDIGO AND ADELAIDE BANK FIVE-YEAR FINANCIAL FORECAST						
Key Metrics (\$m)	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
<b>Income Statement</b>						
Total Revenue	1,960.4	2,035.8	2,124.2	2,221.8	2,325.6	2,435.1
Net Interest Income	1,682.7	1,747.3	1,822.9	1,907.1	1,997.4	2,092.3
Other Income	277.7	288.5	301.3	314.7	328.2	342.8
Operating Expenses	1,199.1	1,213.6	1,231.9	1,253.0	1,281.3	1,323.4
Credit Expenses	4.5	47.0	58.0	64.0	65.0	65.0
Profit Before Tax	756.8	775.2	834.3	904.8	979.3	1,046.7
Tax	231.1	232.6	250.3	271.4	293.8	314.0
Cash Earnings	525.8	542.6	584.0	633.4	685.5	732.7
Statutory Net Profit	483.0	507.0	554.7	605.5	657.8	706.4
Cash Earnings Per Share (¢)	93.5	96.5	103.9	112.7	122.0	130.4
Dividend Per Share (¢)	63.5	64.0	64.5	65.5	66.5	67.5
Net Interest Margin (%)	1.88	1.90	1.91	1.92	1.93	1.94
Cost-to-Income Ratio (%)	61.2	59.6	58.0	56.4	55.1	54.3
<b>Segment Cash Earnings</b>						
Consumer	540.0	576.3	619.5	669.0	715.8	765.8
Business & Agribusiness	380.5	386.2	405.5	427.0	451.5	478.3
Corporate	-394.7	-419.9	-441.0	-462.6	-481.8	-511.4
Total Group	525.8	542.6	584.0	633.4	685.5	732.7
Consumer Growth (%)	5.5	6.7	7.5	8.0	7.0	7.0
Business & Agribusiness Growth (%)	-5.0	1.5	5.0	5.3	5.7	5.9
<b>Balance Sheet &amp; Metrics</b>						
Total Assets (\$bn)	104.7	107.3	112.8	118.5	124.5	131.0
Net Loans (\$bn)	85.4	87.6	92.0	96.7	101.6	106.7
Customer Deposits (\$bn)	73.8	75.6	79.5	83.5	87.7	92.2
Total Equity (\$bn)	7.2	7.3	7.6	7.9	8.2	8.5
Risk-Weighted Assets (\$bn)	39.8	40.6	41.9	43.3	44.7	46.1
CET1 Ratio (%)	11.15	11.12	11.15	11.25	11.35	11.45
Provisions for Credit Losses (\$m)	373.0	420.0	478.0	542.0	607.0	672.0
<b>Shareholder Returns</b>						
Return on Equity (%)	7.48	7.60	8.00	8.40	8.65	8.80
Dividend Payout Ratio (%)	64.5	63.9	63.5	63.5	63.5	63.0
Dividend Yield (%)*	5.5	5.6	5.6	5.7	5.8	5.9
Net Tangible Assets per Share (\$)	9.15	9.20	9.40	9.70	10.05	10.35
Price-to-Book Ratio*	1.26	1.25	1.22	1.19	1.14	1.11

\*Based on share price of \$11.50 as of reporting date

## 6.1 Forecast Assumptions & Inflection Points

Our financial forecasts are built on careful analysis of Bendigo and Adelaide Bank's recent performance, management guidance, and industry trends. The projections reflect a transitional period as the bank completes its transformation program while navigating a challenging operating environment. Key inflection points include the completion of core banking system consolidation (end-2025), interest rate normalization (beginning mid-2025), and the targeted return to growth for the Business Agribusiness segment (FY26). These milestones will significantly influence the trajectory of financial performance over the forecast period.

### 1. Transformation Program Completion and Efficiency Benefits

The bank's transformation program, centered on consolidating to a single core banking system by the end of 2025, represents the most critical inflection point for operational efficiency. We project a gradual improvement in the cost-to-income ratio from 61.2% in FY25 to 54.3% by FY30, reflecting the progressive realization of efficiency benefits following system consolidation. This improvement trajectory falls short of management's medium-term target of 50%, acknowledging the recent 8.3% increase in operating expenses versus the stated goal of inflation-level growth. Key risks to this assumption include potential implementation delays, cost overruns, or capability gaps in the consolidated platform that could necessitate additional investment.

### 2. Residential Lending Growth Above System Rates

Residential lending is projected to expand at 6-7% annually in the early forecast years, moderating to 5-6% in later years as the housing market normalizes. This above-system growth builds on the 5.3% increase achieved in 1H25 and aligns with management's stated priority of growing the residential portfolio ahead of industry benchmarks. The Consumer segment cash earnings are forecast to grow 5.5% in FY25, accelerating to 8.0% by FY28 as operational leverage improves. This assumption is supported by recent market share gains (9bps YoY to 2.79%) and the successful implementation of the Bendigo lending platform. Key risks include heightened competition from major banks, potential housing market slowdowns, or regulatory interventions in mortgage lending.

### 3. Business & Agribusiness Recovery from FY26

Following management's explicit guidance, we project the Business Agribusiness segment to return to growth in FY26, with cash earnings declining 5.0% in FY25 before recovering with 1.5% growth in FY26 and accelerating to 5-6% in outer years. This assumption reflects both management's stated timeline and the segment's current challenges, with 1H25 earnings down 7.8% YoY. The projected recovery depends on successful execution of the Operating Model Efficiencies project, improved agricultural conditions, and stabilization of business lending market share (currently 1.28%, down 10bps YoY). Key risks include continued margin pressure in commercial lending, adverse agricultural conditions, or failure to effectively implement segment-specific transformation initiatives.

### 4. Net Interest Margin Expansion from Rate Normalization

Net interest margin is projected to remain under pressure in FY25 at 1.88% before gradually expanding to 1.94% by FY30 as interest rates normalize. This trajectory aligns with management's expectation of rates remaining elevated until mid-2025 before three cuts to 3.6% by year-end. The gradual NIM improvement reflects anticipated relief from deposit pricing competition as rates decline, partially offset by continued lending competition. This assumption is supported by the bank's historical margin sensitivity to rate cycles and recent management commentary. Key risks include delayed rate cuts, more aggressive deposit competition than anticipated, or structural shifts in funding markets that permanently compress margins.

### 5. Credit Quality Normalization

Credit expenses are projected to transition from the current write-back position (\$10.5 million in 1H25) to more normalized levels by FY26-27. This normalization aligns with management's expectation that "residential arrears will gradually increase and bad and doubtful debts move toward longer-term averages." Credit expense is forecast at \$4.5 million in FY25, rising to \$47.0 million in FY26 and stabilizing around \$65.0 million annually by FY29-30. This trajectory creates a significant earnings headwind that partially offsets efficiency improvements. The assumption is supported by the extended high interest rate environment testing borrower capacity, though the bank's prudent underwriting practices and strong existing provisions (\$368.5 million) provide some mitigation against more severe deterioration.

## 6. Digital Channel Growth and Customer Acquisition

Digital banking growth, particularly through Up, is projected to continue at 10-15% annually, expanding from over 1 million customers currently to approximately 1.7 million by FY30. Digital mortgages are forecast to increase from 19.1% of settlements to approximately 30% by FY30, while digital deposits grow from 25% to 35% of total deposit growth. This digital acceleration supports both customer acquisition and improved operating efficiency through lower cost-to-serve. The assumption is supported by the 13.2% growth in Up customers and 27% digital deposit growth in 1H25. Key risks include intensified competition from neobanks and major bank digital offerings, technology implementation challenges, or customer acquisition costs exceeding expectations.

## 7. Capital Management and Shareholder Returns

The CET1 ratio is projected to remain in the 11.1-11.5% range throughout the forecast period, comfortably above regulatory requirements while supporting continued growth and shareholder returns. Dividend payout ratio is forecast to remain in the 63-65% range, consistent with the current 64.0

### Key Macroeconomic Assumptions:

- Australian GDP growth forecasted to improve from 0.84% for the December 2024 quarter to above 2% by September 2025, supporting gradual recovery in business lending from FY26 onward.
- RBA cash rate to remain at 4.35% until mid-2025 before three rate cuts to 3.6% by end-2025, with further moderate reductions through the forecast period supporting margin recovery.
- Australian residential property price growth expected to moderate over the forecast period due to affordability constraints and population growth normalization, but avoiding significant corrections.
- Unemployment rate projected to increase moderately to a peak of 5.2% in March 2026 before gradually declining, influencing both credit quality and lending demand.
- Inflation expected to continue moderating toward the RBA's 2-3% target band by the end of 2025, reducing cost pressures and supporting eventual interest rate reductions.

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**End of Report**