FIIG | Factsheet

Bendigo and Adelaide Bank Ltd

15 August 2022

Sector: Financials
Sub-sector: Insurance & Banks
Country: Australia
Ownership: Public

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Issuer Outline

Bendigo and Adelaide Bank Ltd (Bendigo) is one of Australia's largest banks which specialises in retail banking with a focus on regional and rural communities. Bendigo has current loans under management of more than AUD77bn, and is listed on the ASX200 with a market capitalisation of AUD6.0bn. Bendigo was founded in 1858.

Bendigo offers a range of banking and wealth management services across all states and territories in Australia, with a particularly strong retail deposit franchise and community focus. Its largest operations are in Victoria and South Australia. It also owns a number of brands including Rural Bank and Delphi Bank.

Key Financials (AUDm)

LTM (30 June 2022)	2022
Net Interest Income	1,417.4
Non-interest income	292.5
NPAT	488.1
Gross Loans	77,821
Total Assets	95,243
Customer Deposits	74,583
Net interest margin (%)	1.74
Credit loss (%)	0.17
CET1 Ratio (%)	9.68

Source: S&P IQ Capital, FIIG Securities and Company Reports

Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call[1]	Maturity Date
AU3FN0040523	AUD350m	Senior Unsecured	BBSW+1.05%	Quarterly	25 Jan 2023	25 Jan 2023
AU3FN0050019	AUD300m	Senior Unsecured	BBSW+0.97%	Quarterly	06 Sept 2024	06 Sept 2024
AU3FN0057634	AUD650m	Senior Unsecured	BBSW+0.52%	Quarterly	02 Dec 2025	02 Dec 2025
AU3FN0046066	AUD275m	Subordinated Unsecured	BBSW+2.45%	Quarterly	30 Nov 2023	30 Nov 2028
AU3FN0057410	AUD150m	Subordinated Unsecured	BBSW+1.95%	Quarterly	19 Nov 2025	19 Nov 2030
AU3FN0063467	AUD125m	Subordinated Unsecured	BBSW+1.48%	Quarterly	14 Oct 2031	14 Oct 2031

[1]*Excludes potential terms that would allow the issuer to redeem prior to the maturity date through a make-whole call.*

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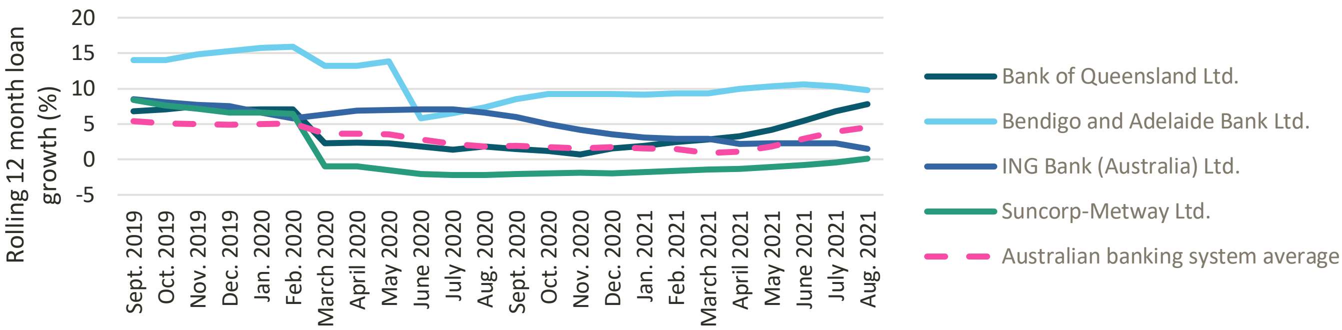
Tier 2 Structure	
Interest Deferral/Cancellation	Interest is deferrable and cumulative if, prior to the payment of interest, the issuer is not solvent or would not be solvent after payment.
Non-Viability Trigger	Yes, standard Basel III compliant non-viability trigger. If APRA determines the issuer is at risk of becoming non-viable, the terms of the notes indicate that the primary method of loss absorption will be via conversion of the subordinated notes into equity, in-part or in full.

Strengths

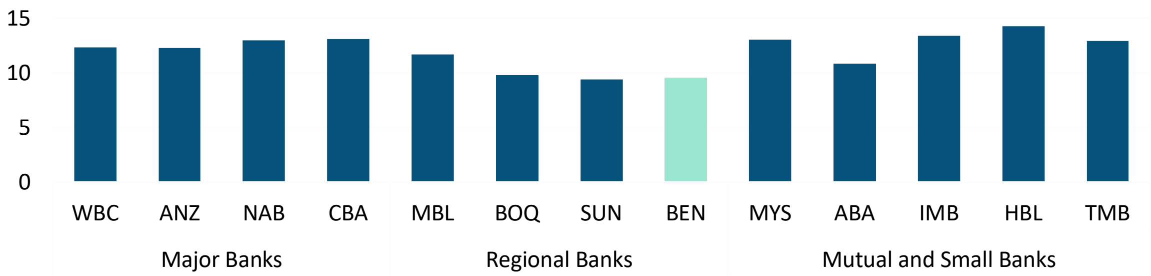
- Focus on low-risk residential lending: Bendigo's core business is residential mortgages, which account for around 70% of total loans. Owner occupier loans make up the majority of residential loans, and over 85% of loans are principal and interest loans. The favourable backdrop for housing performance of very low interest rates and relatively benign economic conditions has resulted in strong growth in residential lending. Bendigo were well placed to benefit from the leveraging of its community bank model and fast turn-around times, which has resulted in above system growth for the bank.

Figure 1: Loan growth



- Sound capital and funding structure: Bendigo has a high level of customer (household and business) deposits which account for more than 70% of total funding needs, towards the top-end of industry averages. The bank's reliance on short-term wholesale funding is generally limited to around 15% of its funding needs. Bendigo maintain strong capital ratios, with S&P forecasting that BEN's risk-adjusted capital (RAC) ratio will be between 14.0% and 15.0% over the next two years. Its CET1 ratio is in line with peers.

Figure 1: Bank Regulatory Tier 1 Capital Ratios (not exhaustive)



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- Sound macro environment and regulatory oversight: Australian financials benefit from operating in an economy characterised as having a very high degree of economic resilience with low susceptibility to event risk. While the Australian economy has recovered relatively strongly from the direct impacts of the pandemic, the current high inflation environment and associated interest rate increases by the Reserve Bank of Australia have the potential to put strain on the post-pandemic recovery, with increased pressure on consumers. The current low level of unemployment and significant savings accumulated over the past two years should provide a buffer. Nevertheless, Bendigo maintains adequate level of credit provisioning to account for this uncertain outlook. Furthermore Institutional and governance frameworks compare well with overseas jurisdictions, providing an additional level of security.

  Australian banks including Bendigo are overseen by a highly regarded prudential regulator, APRA, who oversees banking, insurance and superannuation, with the aim of maintaining the integrity, safety and soundness of financial institutions.

Risks

- Small market share and concentrated business base: Although Bendigo has a sound and defendable business model, its market share is quite small at around 2% of system assets. At the same time, the bank has a reasonably high reliance on third-party channels (brokers) to generate new loans at around 40%, although its reliance is toward the lower-end of system averages. These factors can leave the bank and its business volumes susceptible to competitive and margin (profitability) pressures.
- Funding profile susceptible to competitive pressure: Customer deposits make-up the majority of Bendigo's funding profile. The four major banks in Australia hold a dominant market position, and should they choose or are forced to compete more aggressively for customer deposits, it leaves smaller banks like Bendigo, vulnerable.

Risks relevant to Subordinated Unsecured Tier 2 Instrument

- Deeply subordinated ranking: Tier 2 are unsecured and deeply subordinated instruments, ranking ahead only of ordinary shares and additional Tier 1 (AT1) hybrids. Tier 2 ranks behind senior creditors, which includes depositors, senior unsecured and senior non-preferred creditors (mostly relevant for European banks, only), noting that Tier 2 instruments will rank ahead of AT1 hybrids.
- Optional call dependent on regulatory approval: Tier 2 and AT1 notes include an early call feature where the face value of the notes may be repaid early in cash from a given date stated in the terms and conditions of the instrument. The optional redemption requires regulatory approval, which may not be provided.

  In general, regulators are unlikely to provide approval for a Tier 2 or AT1 instrument to be called if it results in a reduction in the issuer's capitalisation; regulators are unlikely to provide approval for a redemption or resale unless the issuer has, or is expected to, issue an instrument of similar size to replace the instrument subject to that call. To the extent the optional call was expected not to be exercised, it is likely that the price of the notes will be negatively affected, with this negative price movement being potentially material.
- Conversion or write-down following a Non-Viability Trigger Event: A Non-Viability Trigger Event occurs when APRA determines conversion to ordinary shares (or write-off) of some or all of an issuer's contingent capital securities (AT1 and Tier 2) is necessary to prevent that financial institution becoming non-viable. Whether a non-viability trigger event will occur is solely at the discretion of APRA. APRA does not define what constitutes a non-viability event and there are currently no precedents under Basel III to determine non-viability. If such event occurs, the issuer may be required to convert some or all of its AT1 or Tier 2 notes into ordinary shares. In a more severe scenario, the issuer may be required to write-off the value of these notes. We note that it is expected that the conversion / write-off would be expected to be applied first to AT1 hybrids and only then to the Tier 2 if the AT1 conversion / write-off was not sufficient to restore the issuer to a viable position.
- Capped equity conversion: Conversion of Tier 2 and AT1 notes following a capital trigger event (for AT1 only) or a non-viability trigger event is subject to a maximum number of shares being issued. As such, if the notes are converted into ordinary shares, the value of ordinary shares an investor receives may be significantly less than the face value of their notes.

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