Private Banking Services

Bendigo Bank

Annual Shareholder's Report FY2023

PBS Chairman's Report for FY2023

On behalf of the PBS Board of Directors I am pleased to present the company's Annual Report for the 2023 financial year, our 21st full year of operation. We hope that your family, friends, and businesses are successfully navigating the rapid normalisation of interest rates post a pandemic environment of extremely low interest rates. The 2023 financial year for PBS was a very successful year with key financial metrics of income, profitability, dividends, and footings all at record levels. The outlook for FY2024 and beyond is also positive.

The PBS strategy of recent years of diversifying its income streams has significantly improved the robustness of the business as well as providing a self-funded book of growth for Bendigo Bank. FY2023 saw margin income on deposit products increase substantially with the increase in official cash rates – an outcome that reversed the FY19-22 declines in deposit margin income. The environment of aggressive banking competition, with Bendigo Bank adopting a conservative level of participation, together with above normal levels of client loan repayments, meant the full year loan growth of $27m represents a very commendable achievement. Deal opportunities are also starting to flow from a strategic focus on broker and BEN branch networks.

The PBS staff continue to be great ambassadors for our high service brand, and I wish to thank them for their ongoing contributions to our growing business.

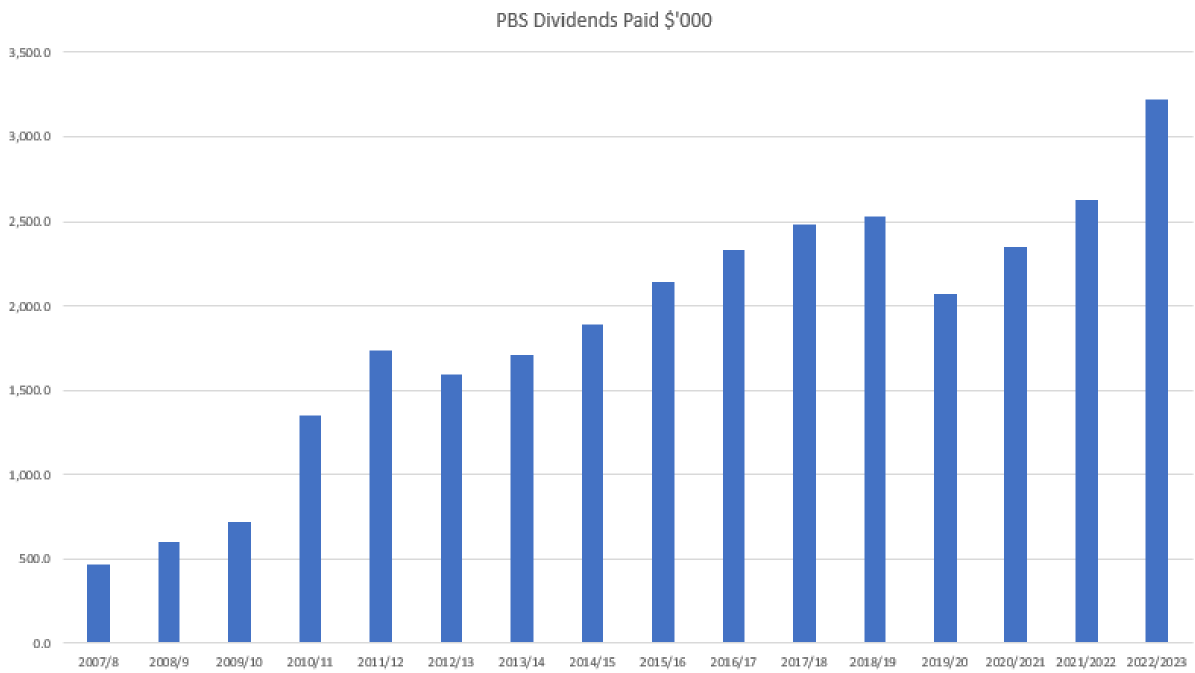
The year saw income of $9.2M (FY22 $7.3M) a 26% increase on FY22. NPBT for the year was $4.3M (FY22 $3.4M) a 25% increase on the previous financial year. Footings ended the year at $1,604M, (PCP $1,317M) a 22% increase on 12 months earlier. The record levels of footings sets PBS up for a good start to FY24.

A June Quarter dividend of $300 per F class share was declared by the Board and was paid mid- August. Full year dividends for FY23 were $1,035 (FY22 $855) fully franked at our corporate tax rate of 25% representing a 21% increase on the prior year. This represents a full year dividend payout ratio of 100%, a level the Board believes is appropriate in current circumstances. The table and chart below show that dividends are at record levels.

Historical Dividends

Historical Quarterly Dividends			
Dividend per F Share $'s	FY 2021	FY 2022	FY 2023
Q1	187.50	175.00	215.00
Q2	190.00	205.00	260.00
Q3	190.00	225.00	260.00
Q4	250.00	250.00	300.00
TOTAL	817.50	855.00	1,035.00

Dividend history



During the year, there was no trading in the stapled securities of PBS, a product of shareholders being happy with their investment. RSD Registry Services, the operator of the PBS Buy Sell Register shows 3 registered buyers and nil registered sellers of PBS shares. The Board desires to increase the number of shareholders, particularly female and/or Sydney based, to assist business growth and shareholder diversity going forward, however with PBS not requiring additional capital it will need to wait until shareholders are willing to sell or dilute their shareholdings.

The Board has agreed a 30 June 2023 valuation of $13,250 per stapled. This is a 7.5% increase on the prior year valuation. The valuation is based on discounting expected cashflows from the existing Franchise Agreement, not taking into account the prospect of additional extensions or variations to the Franchise Agreement.

In early June, a PBS Board Strategy Day reviewed its progress on longer term objectives. The Board is confident of achieving its Sydney originated footings target of $500M by the end of FY2026. The Sydney operation is expected to become profitable in FY2024. A growing and sizeable Sydney operation will aid future franchise renewal negotiations. The Board is also pursuing additional growth opportunities that may lead to significant new business.

Relationships with our Franchise Partner Bendigo Bank remain strong and exist at many levels of our respective organizations. These relationships are very important to our future.

Importantly, on behalf of the Board, I would like to express our thanks to our valued shareholders and clients who continue to be a source of referral opportunities.

Looking to FY24, the Board expects continued growth in profitability arising from a more normal, albeit still very competitive, banking landscape.

Paul van Ryn
Chairman
11 Sept 2023

PBS CEO Report for FY2023

Dear Shareholders,

I hope this report finds you and your families all safe and well. I am pleased to report the board, management and staff of PBS have delivered another strong set of results for the 2023 financial year. The executive leadership team have made great inroads in delivering on our FY2026 Strategy objectives, while continuing to drive strong financial performance and outstanding service to our clients. Our footings growth is up 22% on last year to a new record level, and our revenue and operating profit have also grown by 28% and 30% respectively. A major factor in this result has been the rebound in deposit net interest margins (NIM) off the back of our strategic long-term focus on delivering diversified portfolio growth.

The board & executive leadership team met in June for a full day facilitated strategy refresh, This provided an opportunity to check-in on our strategic progress, validate, test, and update our strategy in line with evolving market conditions. Key objectives achieved last year include activation of 3rd party commercial broker channel, strategic hires in NSW & VIC, enhancement of key stakeholder relationships with BEN, organisational elevation, and investment in our people. The long-term objectives of our FY2026 strategy were essentially revalidated, and the board were able to determine several key strategic priorities for the FY24 financial year.

The PBS staff continue to be our business' greatest asset, and to this end we have been pleased to add quality new additions to the team in both Sydney and Melbourne, while retaining all our key people. Notable additions include Kydi Bowden as our new Finance & Operations Manager, John Rubina our new Relationship Executive in Melbourne, James Cross, and Alvin Ortiz our new Relationship Executives in Sydney. We have an exceptionally talented and capable team, who remain highly engaged and continue to deliver premium client service and business results despite challenging conditions through the 2022/2023 financial year.

June FY23 Quarter – Portfolio Performance

June saw a strong quarter for lending with gross drawdowns of $58.5m and net growth of $34.7m. Deposit balances also grew by $12.3m for the quarter, delivering total footings growth of $46.9m for the quarter.

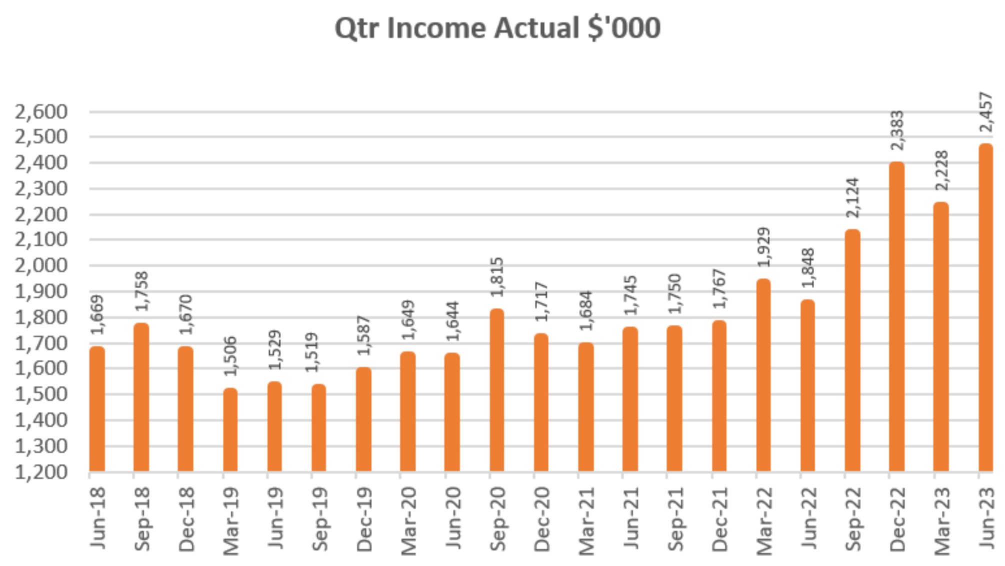
Loan growth – Q4 FY23

April	$8.8m
May	$22.1m
June	$3.8m
Net Loan Growth	**$34.7m**

Deposit growth – Q4 FY23

April	$0.3m
May	-$17.8m
June	$29.8m
Total Deposit Growth	**$12.3m**

June FY23 - Financial Performance

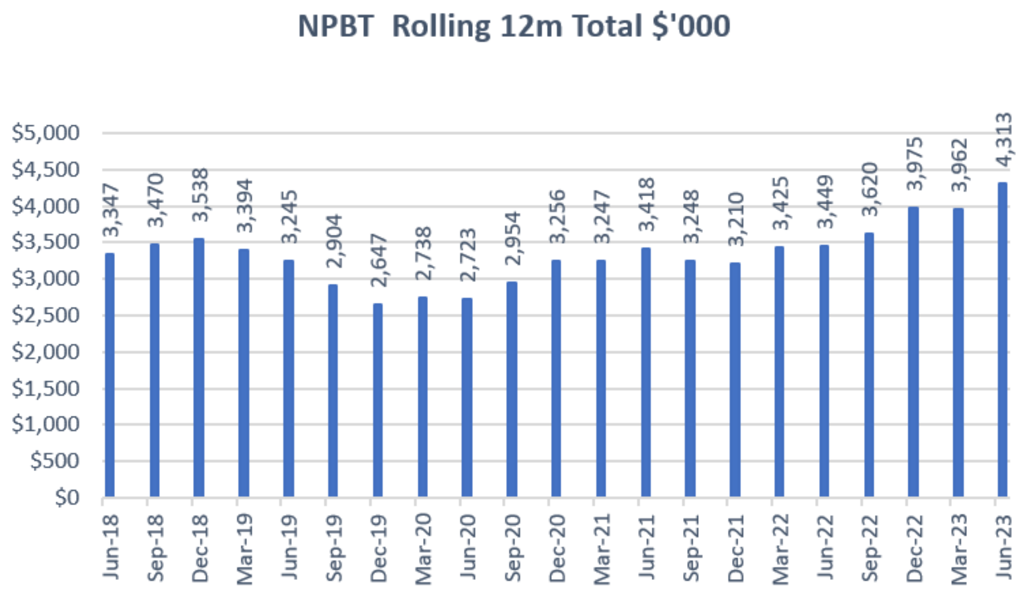


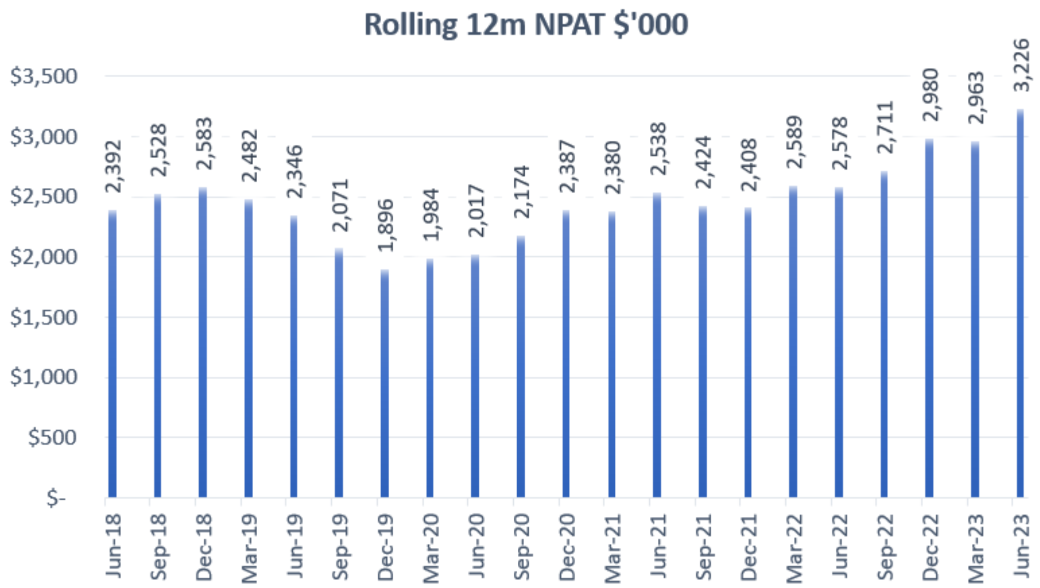
Q4 Income $2,457k (33% favourable to previous year's Q4 (PCP))

Income was favourable to budget by $147k (6%) for the quarter and favourable to PCP by $609k (33%).

Expenses were $1,275k for the quarter which was unfavourable to budget by $96k (8%). Key variances included unbudgeted recruitment costs (~$40k) for additional REs in Sydney and Melbourne, and a correction to the accrual for the option expense pertaining to the Executive Share Schemes ($62k) – now corrected for future budgeting.

NPBT for the quarter was $1,182 which was favourable to budget by $51k (5%) and favourable to PCP by $251k (42%).
NPAT for the quarter was $879k which was favourable to budget by $34k (4%) and favourable to PCP by $264k (43%).



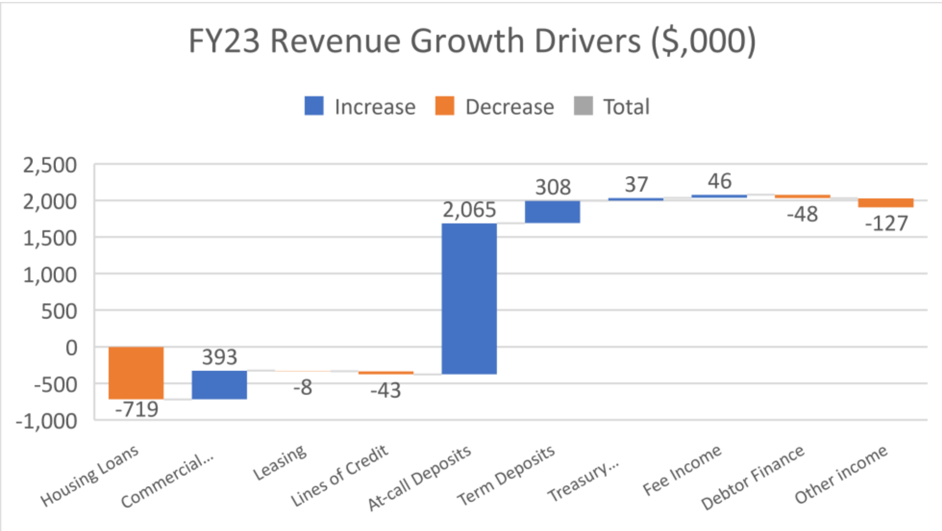


Full Year Financial Results

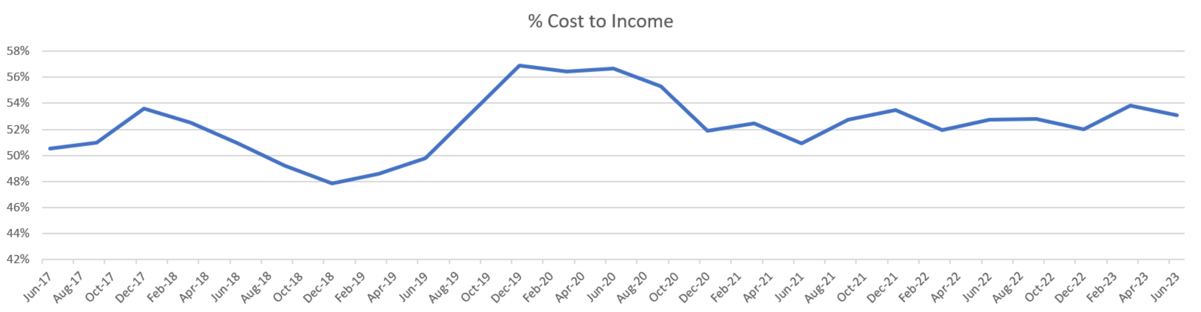
It again gives me great pleasure to present this year's audited financial results for the year ending 30 June 2023.

The business delivered a full year FY23 net profit before tax of $4.311m – an $862k (25%) uplift on FY22. Net profit after tax was $3.209m – a $631k (25%) uplift on FY22.

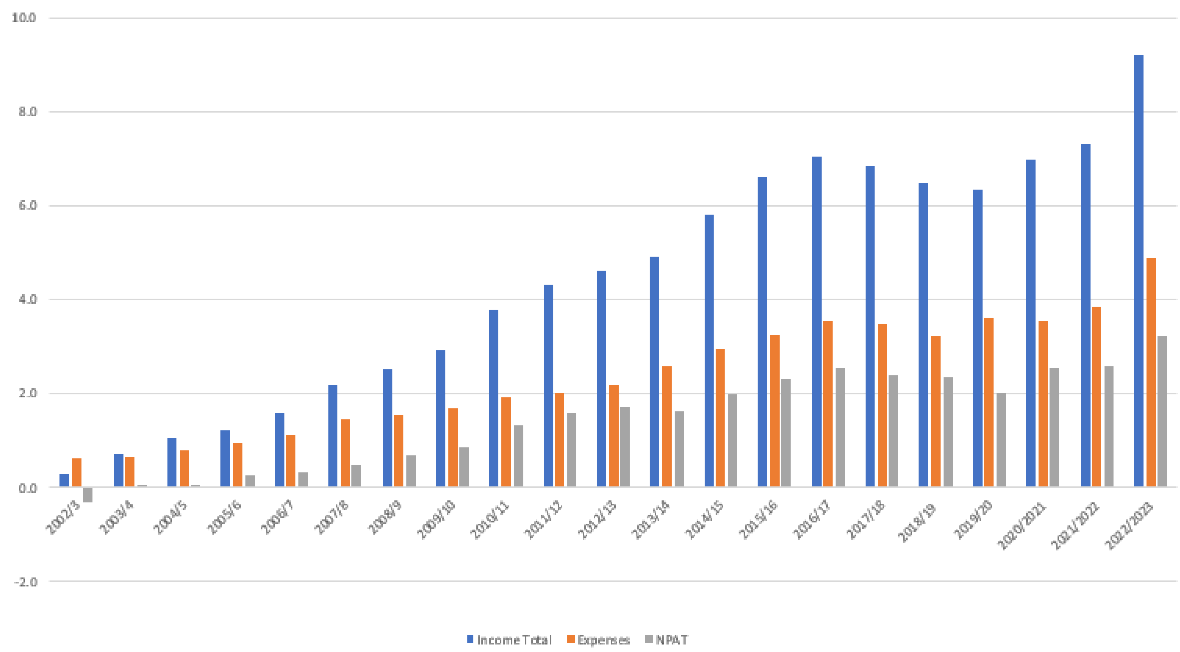
Full year FY23 income of $9.192m was up $1.896m (26%) on FY22. Trailer Commission income of $3.421m was up $426k (14%) on FY22, driven by solid commercial loan and financial market deposit-growth. Fee income of $812k was up $45k (6%) on FY22. Margin income of $4.937m was up $1.555m (46%) on FY22. Margin income growth was a result of significant expansion in NIM on our deposit book, with at-call deposit NIM increasing from 34bps to 96bps - a result of RBA cash rate hikes and the bank's escalating cost of funds. At the same time, we saw further margin compression on our variable home loan book with NIM reducing from 99bps to 49bps across the year.



Expenses were $4.882m for the year versus a budget of $4.924m, and $3.846m in FY22. As outlined in our 2026 Strategy update, this budgeted increase in our expenses aligned to our investment in Sydney, which has grown to 6 staff as of June 2023, as well as an additional Relationship Officer in Melbourne. Our total number of employees grew to 27, as FTE across the whole PBS business was strategically increased from 18 to 22 through the course of FY23. Importantly we can see that despite the significant and strategic investment in new staff (for future growth), we have managed to maintain a CTI (cost to income ratio) of 53% which is in line with FY22. For comparison, BEN's CTI was 54.9%.



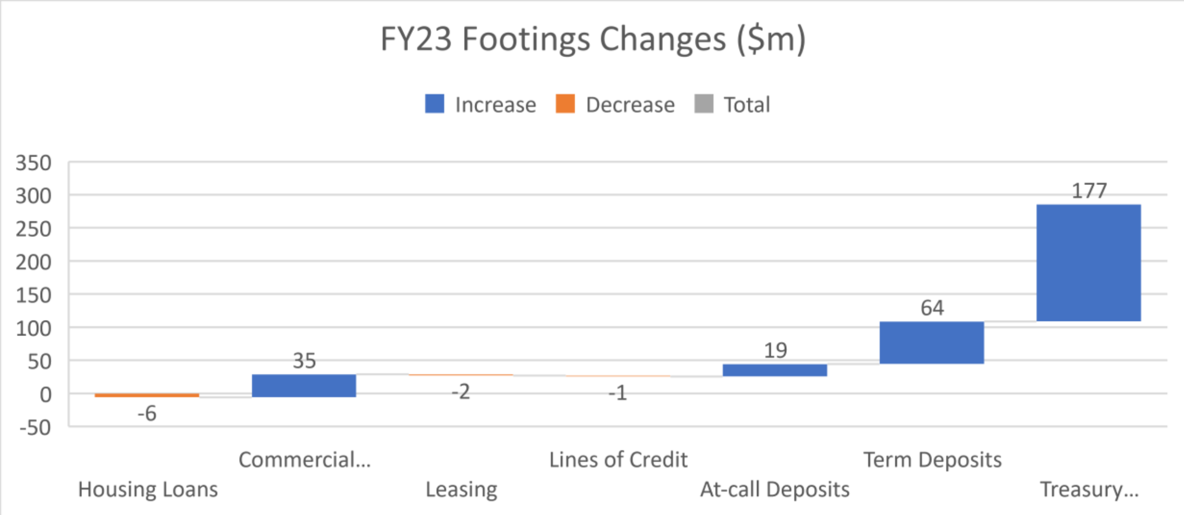
PBS Financial Performance - Since Inception $M



Full year portfolio growth

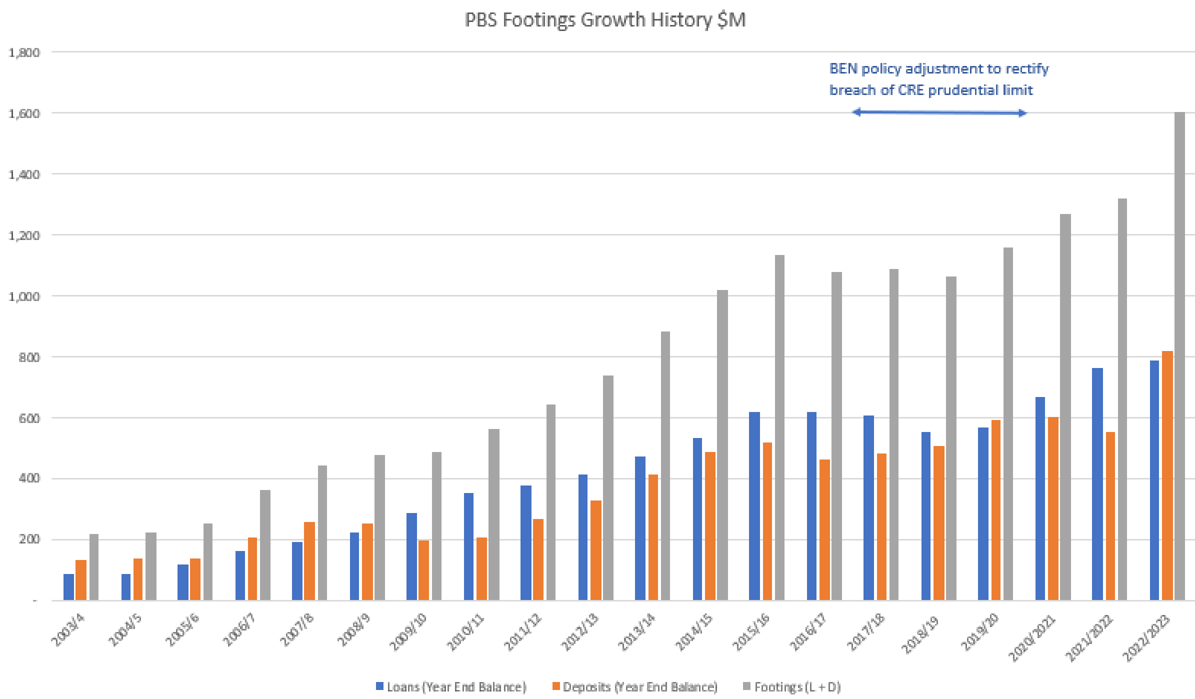
The business had a strong year for footings growth with full year growth of $286m (22%). This was comprised of lending growth of $26m (3.5%) and deposit growth of $260m (47%). Gross lending drawdowns totalled $227m vs budget of $325m. Loan repayments of $200m (26%) were significantly higher than budget of $141m for the year. Our loan growth performance was impacted by several factors:

- Rising interest rates led to much higher levels of voluntary debt reduction with clients selling property assets and depositing surplus cash into redraw facilities.
- Property markets and system credit growth significantly slowed over the course of the year in response to tightening monetary policy.
- BEN strategically prioritised NIM (margin) and ROE over book growth, impacting pricing competitiveness – according to BEN's annual report they delivered loan growth of 1.2% and deposit growth of 3.3%, while NIM was up 17.6%.
- BEN credit policy was slow to adapt to rising interest rates (e.g., interest cover ratios for commercial property investment lending were not altered until March 2023, and home loan servicing buffers remain at 3%)
- BEN implemented a transformational overhaul of its business banking operating model, which impacted the teams who support PBS with our loan origination process – creating significant delays to settlement timeframes. This was disruptive for both staff and clients.



At-call and term deposit balances grew by $83m (20%) over the 12 months to June, while the treasury deposit balances grew by $177m (123%). Our lending growth was driven by commercial loans with net growth of $35m (7%). Our home loan book contracted by $6m (-2%), while leasing and LOC balances contracted by -$3m (-25%).

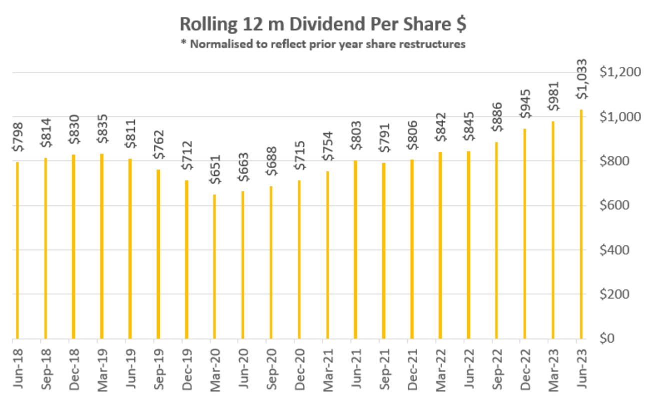
Total footings at 30 June 2023 were $1,604m.

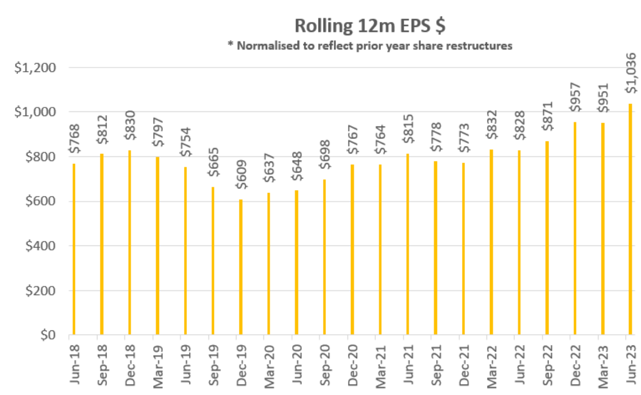


Growth:		EOY Footings:	
Full Year Loan Growth:	$26m	Loan Balances:	$789m
Full Year Deposit Growth:	$260m	Deposit Balances:	$815m
Combined:	$286m	Combined:	$1,604m

Dividends

As highlighted by the Chairman, our EPS and dividends continue to trend favourably, reaching new record highs in 2023.





Sydney Performance

Abley led by Phil McCabe, Sydney had a strong performance in FY24, delivering footings growth of $87m. Final year footings for NSW were $129m which is in line with our forecasting for the business, albeit the mix of loans and deposits differed. The NSW business delivered full year revenue of $773k which was 10% unfavourable to budget, however expenses were managed to 7% below budget to deliver an operation loss of -$174k which was only $22k higher than budgeted. This is notable given that we recruited an additional RE towards the end of the financial year, ahead of original NSW modelling and FY23 budget. The NSW business is on track with original models for footings growth and profit, and based on updated modelling we are targeting faster growth than original assumptions. The NSW business is budgeted to deliver a 48% uplift in revenue for FY24 and hit break-even for profit – again, in line with original modelling. With the new additions of Alvin Ortiz (Relationship Executive), James Cross (Relationship Executive) and Stefan Livaja (Relationship Officer) NSW is now 6 people strong and well positioned to deliver strong growth in FY24 and beyond.

Environmental, Social and Governance Reporting

As a private franchise of Bendigo and Adelaide Bank Limited, PBS reports to BEN and is included within the BEN ESG Sustainability framework and reporting disclosures. The Bank was able to make significant strategic progress on its commitments in FY23 as reported in its recent annual results announcement:

Sustainability commitments	FY23 outcomes
Environment & Climate	
No direct lending exposure to coal, coal seam gas, crude oil, natural gas, native forest logging projects	Achieved
Maintain carbon neutral status	Maintained since 2020
Purchase 100% renewable energy by 2025	BEN Operations: 40% Community Banks: 21%
Reduce absolute emissions by 50% by 2030 and 95% by 2040	In progress
90% statements to be delivered electronically by 2025 (Bendigo Bank)	Progress toward 2025 target
Maintain travel emissions 25% below 2020 levels	Achieved: 70% below baseline
Social	
Gender balance target of 40:40:20 at every level of the organisation by 2025	Progress toward 2025 target
20-point gap for Bendigo Bank annual relative NPS compared to industry average	Achieved: gap maintained
Monitor and report to the Board external ratings of the Bank's Modern Slavery Disclosure	Progress toward target Monash: B, ASCI: 26.5
Governance	
Achieve and maintain Carbon Disclosure Project score of B	Achieved: uplifted score to B from C
Maintain RepTrak Pulse gap of 8 points to the average of the four majors	Achieved: 75.1 in Jun 2023[1]
Increase social supplier spend by 4% from FY22 actual spend	↑ 115 % actual spend

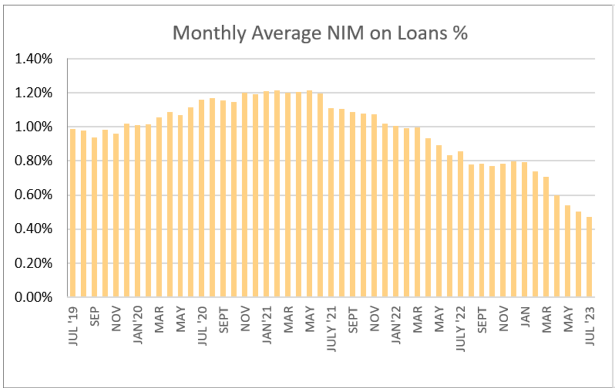
Community Impact

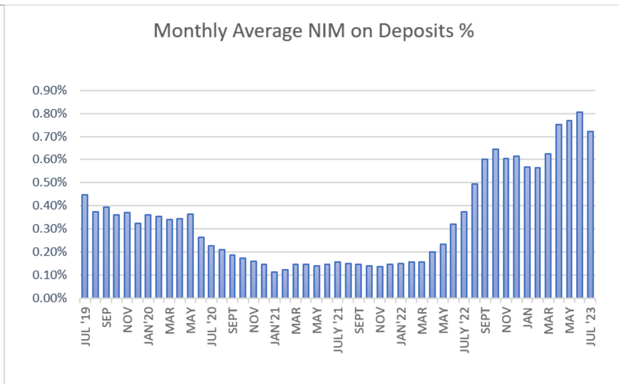
In 2023 BEN celebrated 25 years since the inception of the Community Bank (CB) model. As PBS shareholders are aware, Community Banks share revenue under a similar revenue share model as PBS. Today there are 309 Community Banks across Australia. At least 80% of each community bank's profits are reinvested in local community projects, clubs, scholarships, associations, research, and charities. In FY23 the national CB community contribution was $32.9m, and the BEN Community Bank model has contributed $320m in total since it started.

Since 2008, PBS has had a proud history of sponsoring the Melbourne University Blacks. Our total contribution to University Blacks over this period is $320k, and this investment has not only benefited the club, but over the years PBS has received many referrals and counts many former "Blackers" within its client base (and indeed our shareholder base). Our support for the club has helped it invest on and off the field and enabled it to climb the VAFA leagues back into the William Buck Premier Men's competition this year, where it finished a very respectable 7th place with some notable wins throughout the year. In addition to this, PBS also sponsored the inaugaural BIG V Women's Basketball MND Round in July which raised funds for MND Victoria and will be an ongoing annual commitment. We also supported St Andrews Society of Melbourne's inaugural "Burns In July" event, which saw over 100 Scots-Australian business executives attend and raised ~$10,000 for the My Name'5 Doddie charity.

Outlook for FY24

We have had a strong start to FY24 – as of 31 August 2023 the business achieved YTD net loan growth of $30m, and YTD deposit growth of $94m. This has lifted total combined footings to over $1.7Bn as of 31 August 2023. We have seen NIM contract nominally in our home loan and deposit books. We expect further NIM volatility for both lending and deposit products as the bank recycles its capital in a higher interest rate environment, and competition intensifies for deposits and housing loan market share. This is no different from previous years, as we can see in the NIM charts below, however the key thing to highlight is that our at-call deposit margins are at cyclical highs and may or may not stay there. BEN are currently working on improving their commercial & consumer credit policies and investing in its technology platforms, which we hope will benefit PBS. Further, the activation of 3rd party commercial broker channel for PBS, allows us to access higher deal flows of commercial lending, which plays to the strengths of our team in both NSW and VIC. The Australian economy continues to slow in response to cost-of-living pressures and monetary policy influence. System credit growth is also contracting and expected to continue this trajectory into the end of the year. After significant monetary tightening (4% in rate increases over 15 months), inflation and unemployment data trends are leading most economists to predict the RBA cash rate will remain on hold at 4.1% through to the end of 2023. The PBS board and management cautiously expect the business to continue its growth trajectory as we fully leverage the commercial broker channel and benefit from renewed support and advocacy from BEN.





Shareholder referrals are so important to our business, and I strongly encourage all shareholders to let their family, friends and associates know about the PBS offering.

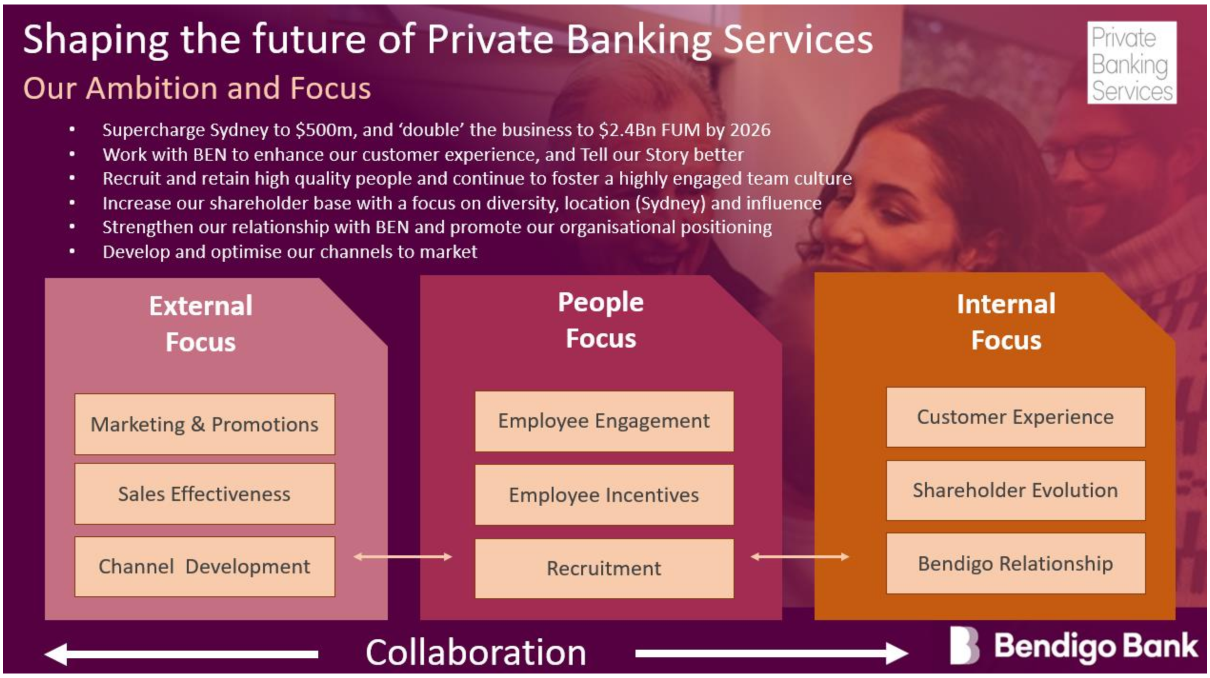
FY24 Budget

We have had a strong start to the new financial year, and we have budgeted for strong portfolio growth in FY24. In Melbourne we are targeting footings growth of $103m and for Sydney we are targeting footings growth of $168m. The disparity in footings targets between Sydney and Melbourne is because we anticipate loan run-off (repayments) will remain at elevated levels due to continuing monetary tightening during FY24 – with Melbourne having a significantly larger back book the impact is more severe. Combined footings growth target of $271m would deliver end of year footings of $1,875m for FY24.

PBS Consolidated Budget			
	FY24F	FY23A	
	Totals		
Income	$10,756,019	$9,192,486	15%
Expenditure	$5,891,776	$4,881,743	17%
NPBT	$4,864,243	$4,310,743	12.84%

We expect further margin volatility in FY24, due to bank COF and the impacts of competition on deposit and home loan pricing for all banks. This is challenging for the PBS management and board to predict. On prevailing product margins as of 30 June, the FY24 budget is targeting full year consolidated income of $10.756m and NPBT of $4.864m. The budgeted growth is in line with our FY2026 strategic targets to deliver $500m in footings growth for NSW and total PBS footings of $2.4Bn by the end of 2026.

Outlook Beyond – Our FY26 Strategy



The board met in June 2023 for a full day facilitated board strategy session. This year the focus was on a strategy health check and determining the "big rocks" for FY24.

In FY23 we made significant inroads in our FY2026 strategy:

- Successful recruitment and continued build out of our NSW business.
- Negotiated BEN Exec support for PBS to activate the paid 3rd party commercial broker channel.
- Delivered FY23 footings growth in line with FY26 target model.
- Expanded professional referrer network in Sydney and Melbourne.
- Diversified deposit origination strategy – targeting multi-family offices, and non-bank financial services companies.

- Partnered with JC Wright & Co to deliver a new Sales Enablement training and development programme to RE team.
- Developed BEN stakeholder mapping and strategically enhanced key stakeholder relationships.
- Achieved elevation within BEN organisation, with better advocacy and support from key execs.
- Developed collaborations with key partners in BEN Consumer & Margin Lending divisions.

Our core strategic priorities for FY24 include:

- Negotiate BEN Exec support for PBS to be internally (& officially) promoted as The Private Bank of Bendigo & Adelaide Bank – determined by advocacy and internal referrals to PBS for HNW, Family Office & Complex clients.
- Invest and build out our digital marketing capability to "Tell Our Story Better" and promote our brand profile.
- Work with BEN to improve The Way We Work – focussing on the operating model (both our own, and BEN processes), and investing more in training & development for our people.
- Improve reporting on customer feedback by activating NPS feedback via BEN and initiating our own customer feedback surveys.
- Expand and diversify our shareholder base – focussing on interstate, and demographic diversity.
- Further enhance our Stakeholder Map to target and improve key stakeholder relationships within BEN.

Summary

FY2023 was another great year for PBS with very strong growth in footings and record growth in revenue and profit driven by deposit NIM expansion. The board and management have made significant progress on our FY2026 Strategy, while navigating some very challenging business conditions. Most notably, the activation of the 3rd party commercial broker channel for PBS is hugely significant as a driver of deal flow and growth for future years. The steep cycle of domestic monetary policy tightening looks to have peaked, on current inflation and unemployment data, but the likelihood of navigating a soft landing for the economy has diminished. This is having an impact on system credit growth which continues to slow and will likely intensify competition in the banking sector for lending and deposit customers. That said, PBS has invested for growth, and the activation of the 3rd party commercial broker channel will assist deal flow over the next 12 months in a slowing market. BEN is focussed on revising their credit appetite and policies, improving its operating model and overhauling its technology stack – which will hopefully have downstream benefits for PBS. They have also signalled to the market the intention to maintain a focus on NIM and ROE, as it targets above system growth. The Board and management are focussed on delivering on our core strategic objectives for FY24 as we work towards achieving the outcomes of our FY2026 Strategy. On behalf of the PBS board and staff, I would like to thank all our shareholders for your continued support. Referrals are key for our business so please reach out to me if you have any contacts that would be interested in our services.

Regards,

Innes Kirkwood
CEO & Managing Director
11 Sept 2023