

# INVESTOR PRESENTATION

FY23 Financial Results

25 August 2023

# Agenda



## **FY23 Results Overview**

Allan Savins  
Chief Executive Officer



## **FY23 Financial Results**

Andrew Kitchen  
Group CFO



## **Strategy update and outlook**

Allan Savins  
Chief Executive Officer



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# **FY23 Results Overview**

Allan Savins

Chief Executive Officer

“The 2023 financial year has been transformational for BNK as our company’s strategic expansion into higher margin lending begins to deliver returns in a less favourable credit environment. Our promise from a year ago to achieve cash NPAT profitability in Q4 FY23 – ahead of our initial guidance of FY24 – and our expansion into higher margin assets, were both achieved.”



**Allan Savins**  
**Chief Executive Officer**

# FY23 Results Overview

**\$18.8m**

Net Interest Income  
+46% on FY22

**1.32%**

Direct Net Interest  
Margin (NIM)  
Up 6bps on FY22

**\$21.6m**

Operating Expenses  
Up \$(2.9)m on FY22

**\$128.4m**

Group Net Assets  
Down \$(62)m on FY22

**\$(3.7)m**

Bank NPAT  
Up \$3.2m on FY22

**\$(1.5)m**

Cash NPAT\*  
Up \$(0.6)m on FY22

\*Normalised for tax

## Financial highlights

- Achieved Q4 cash profit ahead of original FY24 timeline.
- NII growth drives positive Jaws of 9.7% on a YoY basis.
- Exit NIM of 1.57% for FY23 marks progress towards 2% target.
- Higher margin lending portfolio grew 15x to \$195m.
- Total on balance sheet loan book of \$1.3b, an increase of 37%.
- Total deposits increase by 30% to \$1.3b.
- Capital Adequacy Ratio – 22.84%

## Strategic highlights

- Distributed proceeds of \$60m Finsure sale to shareholders as a \$20m capital return and a fully franked special dividend of \$0.34/share.
- Strengthened our shareholder base by welcoming non-bank lender Firstmac as a substantial shareholder.

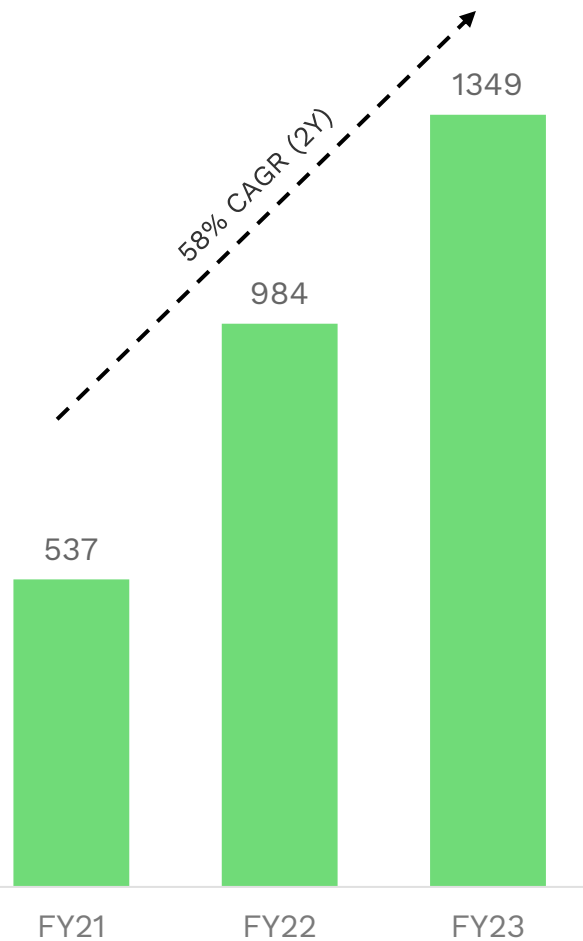
# BNK Loan Book, Deposits & Net Interest Income

Consistent growth achieved across lending and deposits

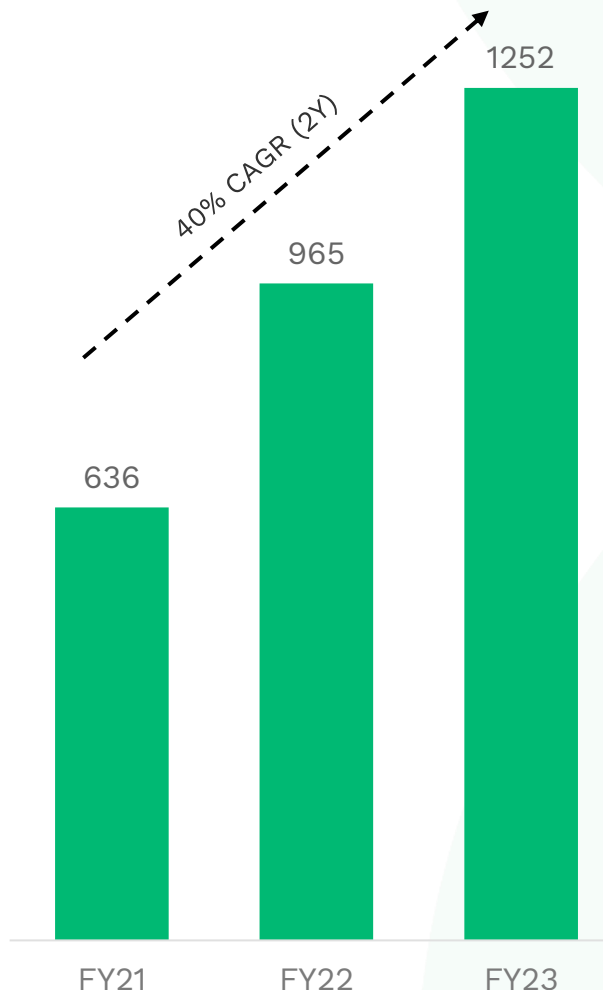


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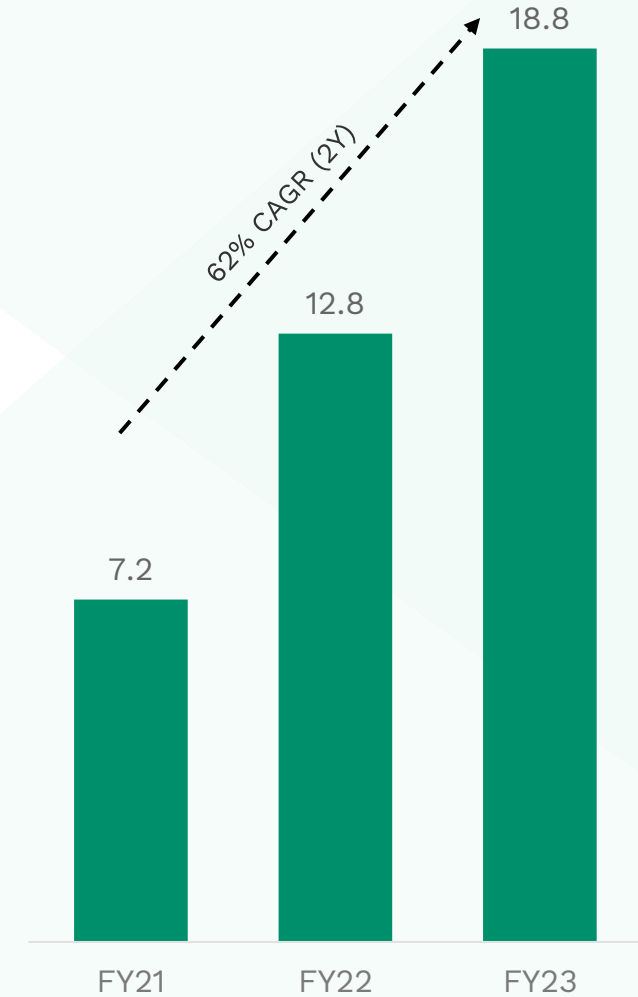
Loan book (\$m)



Deposit book (\$m)



Net Interest Income (\$m)



# BNK'S DEPOSIT STRATEGY

Investment that sustainably grows BNK's deposit base

## Network and Relationship

- Diversify and grow third party relationships
- Prioritising human touch service over price
- Focus on cross-selling to existing portfolio
- Build strong networks to open new market opportunities

Priorities

Phase 1

## Technology and Brand

- Amalgamate and promote BNK brand
- Create a customer centric core banking system
- Website development to improve service offering
- Invest in an NPP-capable digital banking app
- Provide improved options for digital customers
- Improve CRM processes

Phase 2

## Automation and innovation

- Automate direct customer processes
- Invest in digital customer technology
- Improve Customer Relationship Management systems
- Grow customer share of wallet by expanding range of products for SME, SMSF, and retail customers
- Utilise innovative customer interaction options

Phase 3

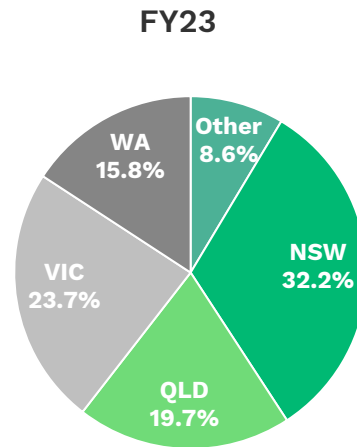
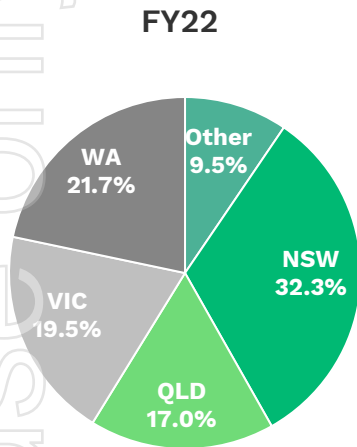
# Risk-managed growth and diversification in the BNK-funded lending portfolio

Improved geographic mix and diversity of loan categories



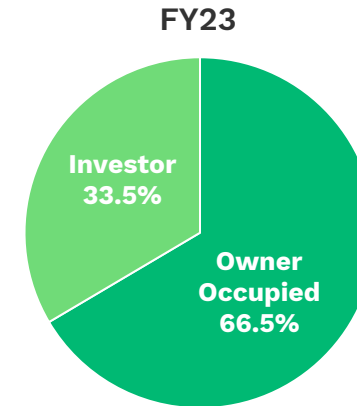
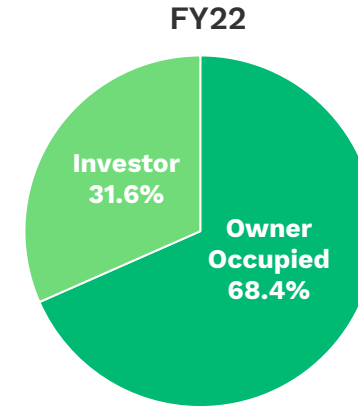
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## On Balance Sheet Loans



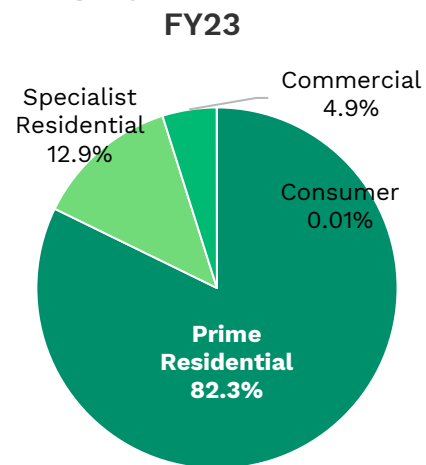
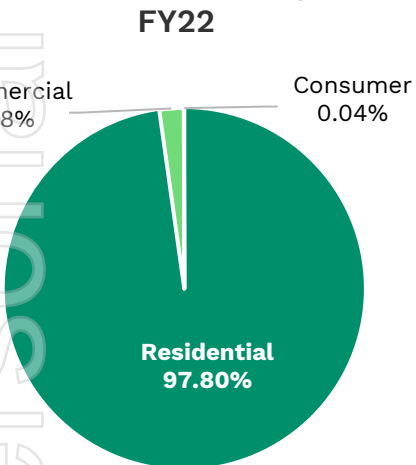
Increasingly diverse geographic customer base de-risks the lending portfolio.

## Portfolio By Loan Type



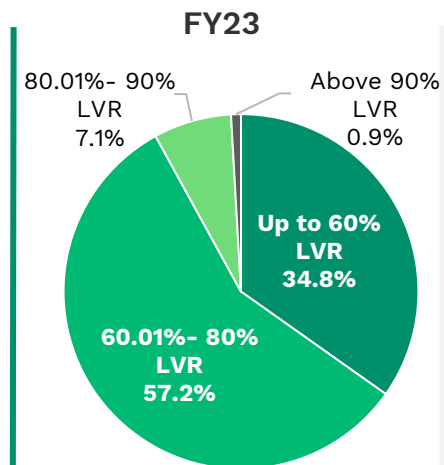
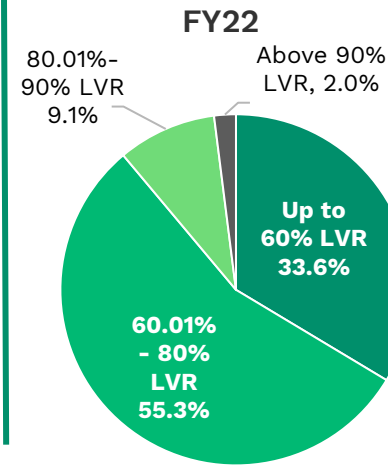
Modest increase in investor lending supports margin expansion.

## Portfolio Mix By Loan Category



Strong growth in higher margin residential loans as a result of the Goldman Sachs specialist warehouse portfolio acquisition.

## Portfolio Mix By LVR



Maintained strong LVR mix at settlement with the expansion into higher margin loans.

# Strong Cornerstone Portfolio

BNK has delivered growth while maintaining strength in its underlying loan portfolio:



## Loan quality control maintained

- Retained interest rate servicing buffer of 3.0% in FY23.



## Loan size increased

- Average loan size increased from \$340k to \$382k YoY, while maintaining a strong LVR mix.



## High quality customers

- Slight increase in offset account balances from \$87m to \$89m over FY23.
- Approx. half of all loan accounts (49%) are ahead in their payments.
- Mortgagee in possession rates remained at zero.
- No credit write-offs recorded for FY23.



## Majority of loans on variable rate

- Fixed Rate loans make up 24% of the BNK portfolio as at 30 June 2023.
- Fixed Rate lending has reduced to below 8% of new loans in FY23.
- Maximum Fixed Rate term remains 3 years.
- Fixed rate portfolio will reduce by 57% over FY24 and a further 40% over FY25, remaining a retention tool in the product mix.

# **FY23 Financial Results**

Andrew Kitchen

Chief Financial Officer

## Positive momentum in earnings

	FY23	FY22	Change on PCP
Group Statutory NPAT	\$(3.9)m	\$59.8m	↓ LRG*
Net Interest Income	\$18.8m	\$12.8m	↑ 46.2%
Bank Cash NPAT	\$(1.5)m	\$(2.1)m	↑ 29.5%
Group Net Assets	\$128.2m	\$190.4m	↓ 32.7%*
Bank Net Interest Margin	132bps	126bps	↑ 6bps
Capital Adequacy Ratio	22.8%	47.5%	↓ 24.7%*
Minimum Liquid Holdings	21.3%	32.6%	↓ 11.3%*

(\*) PcP comparatives impacted by Finsure divestment in FY22 and subsequent \$60m distribution to shareholders.



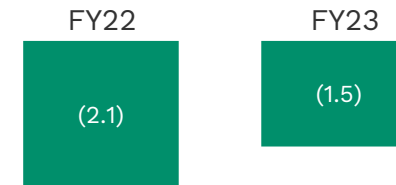
# Performance

Delivered Q4 cash profit

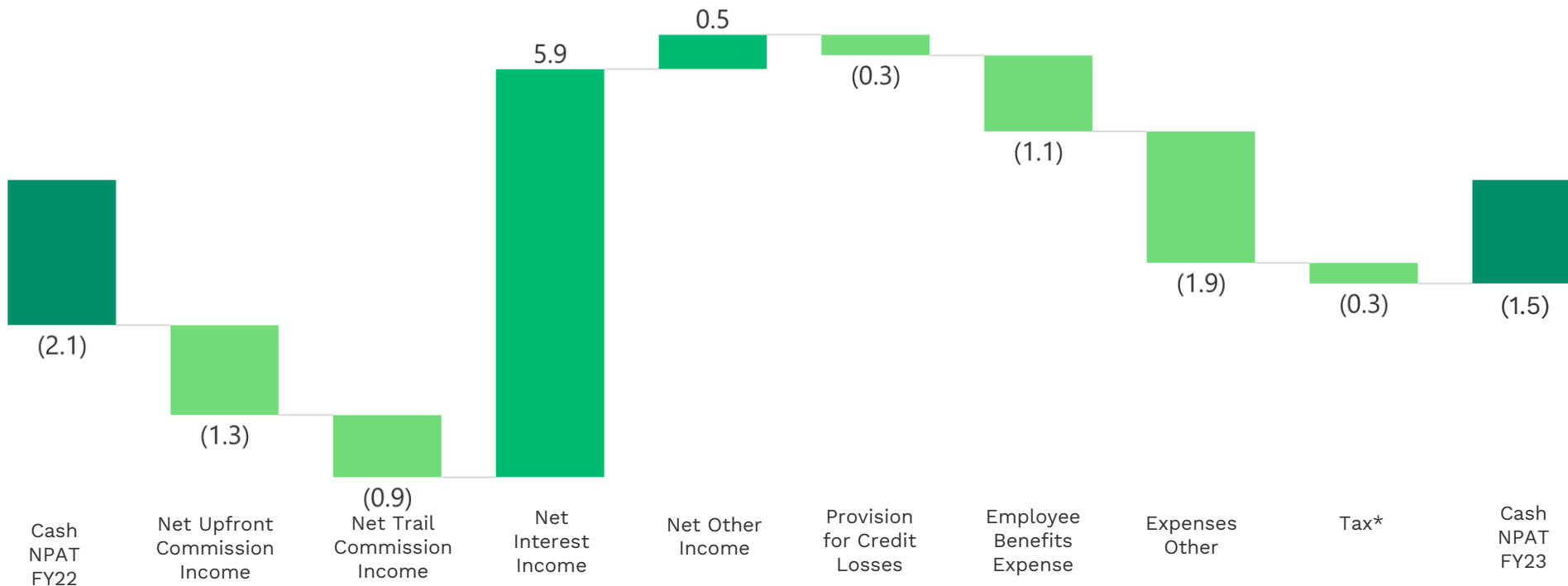
## Underlying NPAT\* (\$m)



## Cash NPAT\* (\$m)



## Cash NPAT bridge\* (\$m)



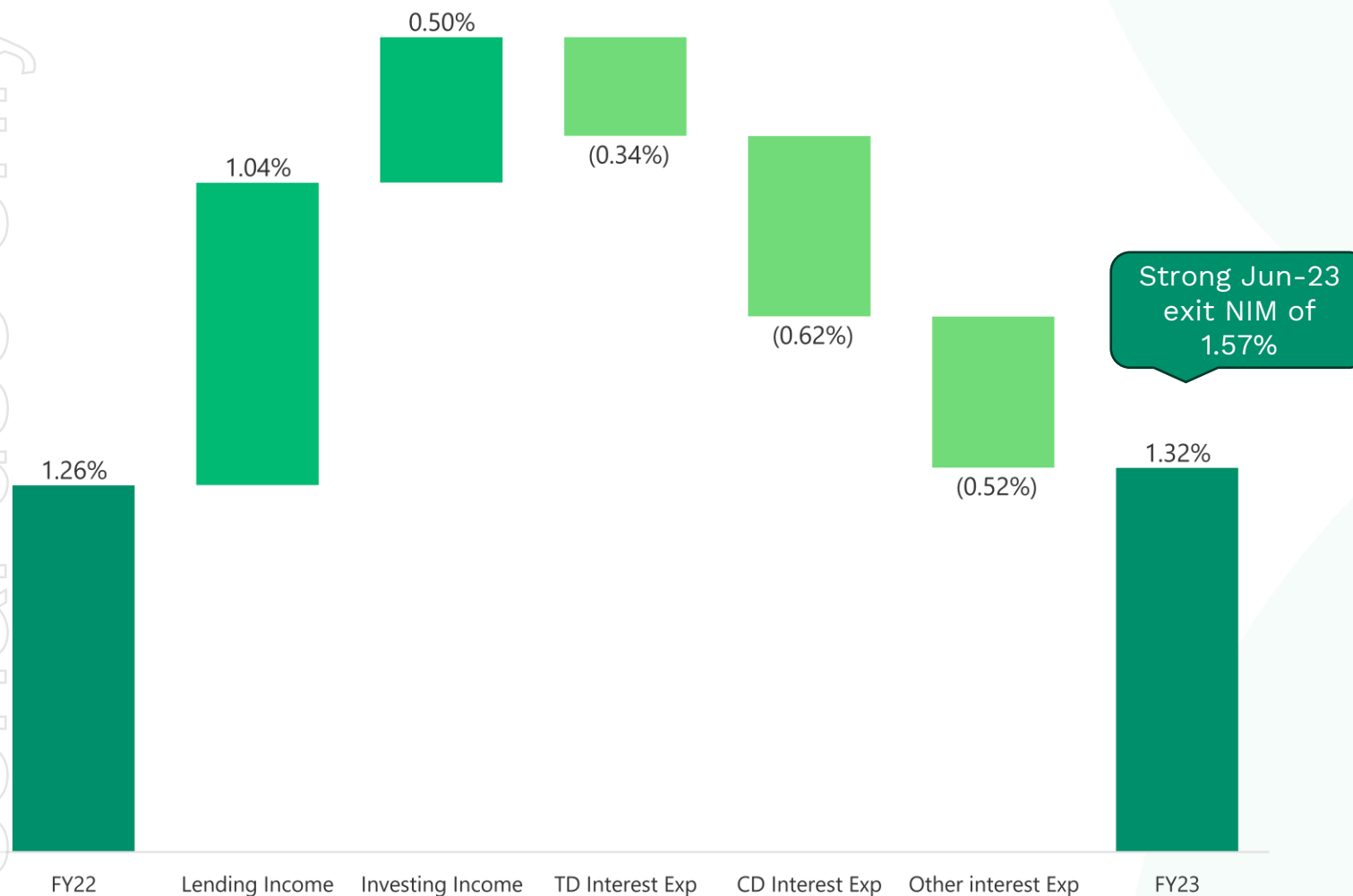
\* Underlying NPAT and Cash NPAT presented are tax normalised assuming effective tax rate c. 30%

# Bank Net Interest Margin

Growth in Exit NIM despite competitive mortgage market



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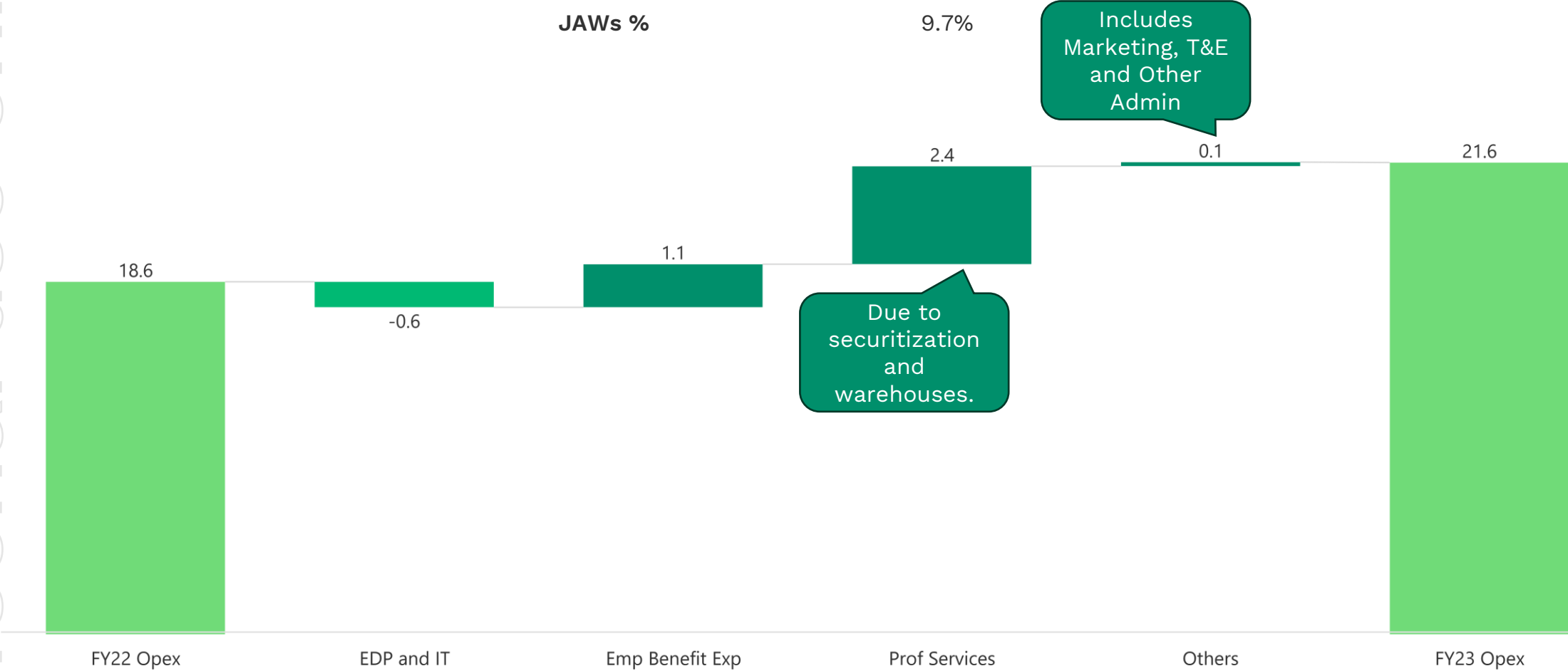


- Growth in NIM despite industry headwinds reflects BNK's competitive product mix.
- Steady progress towards exit NIM target of 2% reflects BNK's sound strategy.
- Opportunities to improve NIM:
  - Ongoing fixed rate re-pricing in the mortgage and deposit markets.
  - Continued expansion into higher margin SME market.
  - Increasing market share in competitive deposit space.

# Operating Expenses

Operating Bridge (\$m)

	YoY Movement
Revenue Growth	\$4.1m
Expense Growth	\$2.9m
JAWs \$	\$1.2m
JAWs %	9.7%



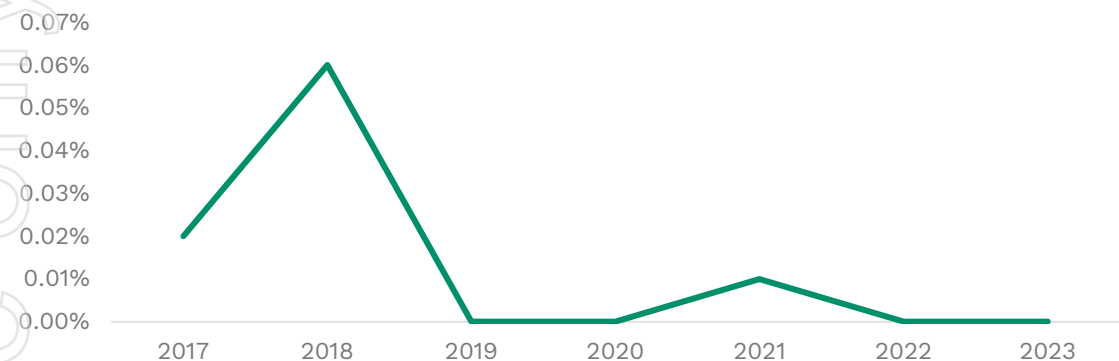
# Credit Quality & Loss Protection

Growth achieved without sacrificing credit quality

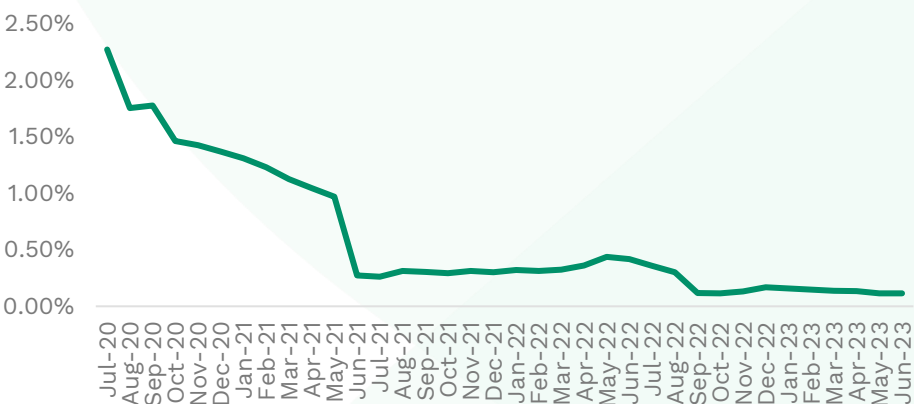


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Historical Credit Charges (% of loan book)



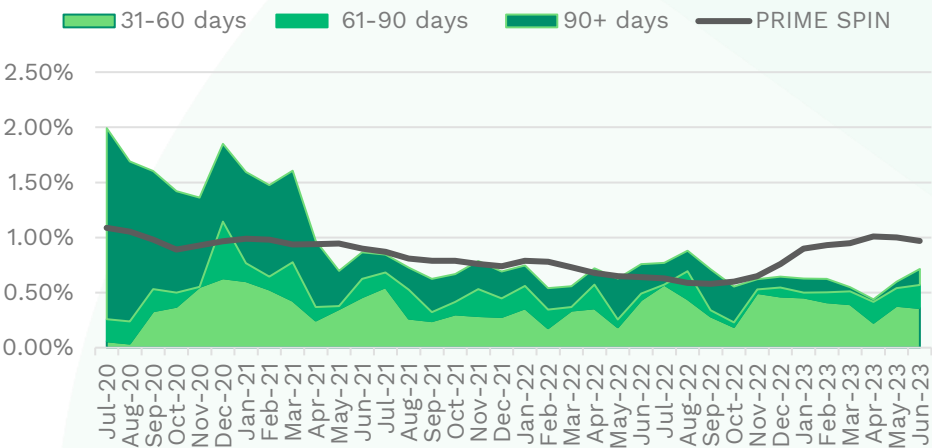
Portfolio Hardship Rate (% of customers)



ECL Changes Jun-22 to Jun-23 (\$ 000's)



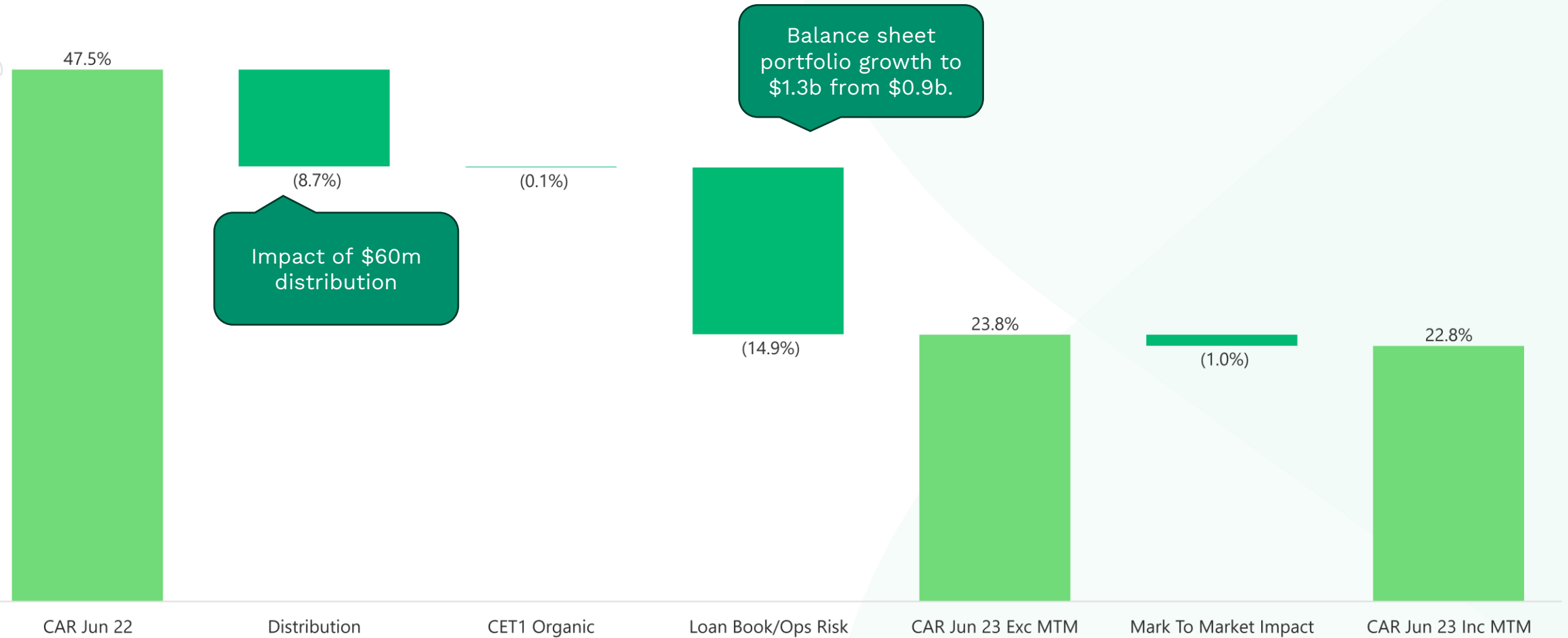
BNK Arrears vs PRIME SPIN



# Well Capitalised

Change in capital due to loan book growth and capital/dividend return

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MTM: Mark to Market

# **Strategy Update and Outlook**

Allan Savins

Chief Executive Officer

# Strategic progress in FY23

Strong performance despite economic headwinds



## GROWTH

**TARGET:** Increase BNK's balance sheet loan book to over \$3bn

- Maintained strength in BNK's residential mortgage portfolio, with no write-offs in FY23.
- Grew Loan Book to \$1.3bn.
- Grew deposit book by 30% YoY to \$1.3b and secured record deposit inflows as a result of competitive product offerings.
- Deposit funding ratio of 88% ensures stability of funding.
- Grew mortgage broker accreditations by 18% to 10,145.
- Strengthened shareholder base by welcoming non-bank lender Firstmac as a substantial shareholder.



## MARGIN

**TARGET:** Move into higher margin lending with 15%-20% in commercial property settlements in FY23.

- Extended our suite of higher margin banking products to include commercial secured loans and transaction accounts.
- Higher margin lending portfolio grew 15x to \$195m; well in excess of 15% - 20%.
- Used capital more efficiently to achieve higher total volumes and higher margin business targets.



## PROFITABILITY

**TARGET:** Positive cash NPAT in FY24. ROE of >10% in the medium term. Increase NIM to >2%. Cost to Income ratio of <60%.

- Improved cash NPAT by 30% YoY
- Achieved Q4 cash profit ahead of original FY24 timeline.
- Grew Net Interest Income by 46.9% YoY to \$18.8m.
- NIM up 6.0 basis points to 1.32% in FY23 and June NIM of 1.57%.
- Exit Cost to Income ratio of 80%.
- Distributed proceeds of \$60m Finsure sale to shareholders through a \$20m capital return and a fully franked \$0.34/share special dividend.

GOALS ACHIEVED IN FY23

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# Strategic focus for FY24

Steady, confident growth into the SME space



## GROWTH

**TARGET:** Increase BNK's balance sheet loan book to over \$3bn over the medium term

- Maintain the strong residential portfolio as the foundation for growth.
- Expand our growing mortgage broker distribution base, with a focus on higher margin / commercial loan writers.
- Invest in the technology stack transformation to enhance capability, open new markets to support growth, and drive efficiencies for customers and staff alike.
- Support the continued maturity of the Goldman Sachs warehouse.

## MARGIN

**TARGET:** Increase BNK's Net Interest Margin to 2% over the medium term

- Leverage BNK's relationships to continue expanding into the competitive deposit space.
- Sustainably grow our higher margin loan book and suite of products.
- Higher margin assets will continue to be an area of focus, with a goal to have 20% of our FY24 settlements in higher margin assets.
- Improve our funding costs to assist in driving higher margins and sustained profitability.

## PROFITABILITY

**TARGET:** Focus on achieving steady, sustainable growth with a Cost to Income ratio of <60% over the medium term

- Build on Q4 FY23 cash profit to deliver sustainable cash profit in FY24.
- Maintain discipline on expense growth to support investments.
- Strategically pursue opportunities for new deposit and asset classes, inorganic growth and white label partnerships.

Helping Enterprising Australians

# Summary & Outlook

Becoming a market leading SME bank

- ✓ Improve cost of funds to assist in delivering higher margins and sustained cash profitability
- ✓ Leverage existing relationships to increase market share in higher margin lending and deposit space
- ✓ Transform technology stack to drive efficiencies, open new markets, and simplify processes for clients and employees
- ✓ Improve shareholder mix and target value-driven shareholders
- ✓ Expand our mortgage broker distribution base, particularly in the commercial and specialist residential space
- ✓ Seek and execute on opportunities for new deposit classes, new asset classes, and inorganic growth

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# Group Financial Snapshot



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	FY23	FY22
Bank Underlying NPAT (\$m)	(3.7)	(6.9)
Bank Cash NPAT* (\$m)	(1.5)	(2.1)
Group Statutory NPAT (\$m)	(3.9)	59.8^
Group EPS	(0.03)	0.51^
Group Net Income (\$m)	17.7	9.7
Operating Expenses (\$m)	21.6	18.6
Direct Net Interest Margin (Avg)	1.32%	1.26%
Capital Adequacy Ratio	22.84%	47.50%^
Total Lending Portfolio (\$m)	2,486.9	2,668.7#
Cost to Income Ratio	122%	192%
MLH (Spot)	21.3%	32.6%
Expected Credit Loss (ECL)	22 bps	21 bps

\* Normalised for tax

^ Affected by capital distribution of Finsure sale proceeds

# Includes BCHL legacy portfolio

# Underlying to Statutory NPAT Reconciliation



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	FY23	FY22
<b>Statutory Net (Loss)/Profit After Tax (\$'000s)</b>	<b>(3,935)</b>	<b>59,786</b>
Revenue adjustments		
· Sale of equities	-	(319)
Expense adjustments		
· Restructuring and transition costs	-	4,833
· Share Based Payments	-	1,742
· APRA Infringement Penalty	248	-
Tax effect of adjustments	-	(745)
Disposal of Subsidiary (net of tax)	-	(72,178)
<b>Underlying Net (Loss)/Profit after Tax (\$'000s) (Management-reported results)</b>	<b>(3,687)</b>	<b>(6,881)</b>

# Balance Sheet

Group (\$m)	FY23	FY22	\$ Var.	% Var.
<b>Assets</b>				
Cash & Equivalents	92.6	140.0	(47.5)	(33.9%)
NPV Asset	16.8	21.0	(4.3)	(20.3%)
Loans & Advances	1,357.5	990.1	367.5	37.1%
Other Assets	212.9	290.7	(77.7)	(26.7%)
<b>Total Assets</b>	<b>1,679.8</b>	<b>1,441.8</b>	<b>238.0</b>	<b>16.5%</b>
<b>Liabilities</b>				
Deposits	1,252.3	964.6	287.7	29.8%
Other Liabilities	299.3	286.8	12.5	4.4%
<b>Total Liabilities</b>	<b>1,551.6</b>	<b>1,251.4</b>	<b>300.2</b>	<b>24.0%</b>
<b>Equity</b>				
Contributed Equity	100.3	118.9	(18.6)	(15.6%)
General & Other Reserves	1.9	1.6	0.3	16.5%
Retained Earnings	26.0	69.8	(43.8)	(62.8%)
<b>Total Equity</b>	<b>128.2</b>	<b>190.4</b>	<b>(62.2)</b>	<b>(32.7%)</b>