BNK Banking Corporation Limited
Level 14, 191 St Georges Terrace
Perth WA 6000

ASX Release, 29 November 2023

2023 AGM – Chairman's Address and CEO's Address

Please see attached for release to the market, the Chairman's Address and CEO's Address, which will be presented to BNK Banking Corporation Limited's (ASX: **BBC**) ("**BNK**" or the "**Company**") 2023 Annual General Meeting (**AGM**), which will be held today commencing 12:30 pm (AEDT) / 9.30am (AWST).

The AGM will be held as a hybrid meeting, being a meeting conducted both in-person at Dentons, Level 16, 77 Castlereagh Street, Sydney and via an online virtual meeting platform at https://www.advancedshare.com.au/Dashboard/Virtual-Meeting-Centre-Login.

ENDS

This announcement has been authorised for release by the Company Secretary on behalf of the Board.

Investor Enquiries
Michelle Loh
Cannings Strategic Communication
Email: mloh@canningscomms.com.au
Telephone: +61 497 834 937

Media Enquiries
Belinda Tasker
Cannings Strategic Communication
Email: btasker@canningscomms.com.au
Telephone: +61 434 056 724

Chairman's Address

FY23 Results

- FY23 was a transformational year for BNK as our company's strategic expansion into higher margin lending began to deliver returns in a less favourable credit environment.
- Our promise from a year ago to achieve positive cash NPAT in Q4 FY23 – ahead of our initial guidance of FY24 – and our expansion into higher margin assets, were both achieved.
- In the 2023 financial year, we were also able to provide substantial returns to shareholders via a fully franked special dividend and capital return.

Some important call-outs for FY23:

- BNK loan book grew 37% in FY23 to $1.3B – which includes balance sheet and BEN funded loans (A 58% CAGR over the past 2 years).
- We deliberately moderated our organic growth in residential PRIME lending at the beginning of FY23, with a focus on profitable growth (not just growth for growth's sake).
- Our higher margin lending portfolio grew 15x to$195m; well in excess of the $100m target that we set ourselves.
- Deposit book grew 30% in the same corresponding period (approximately 6 times system growth), with a Deposit ratio of 88% which ensures funding stability.
- This underlines our origination capabilities for both Assets and Deposits and showcases the benefits of our business model.
- We increased our BEN capital relief warehouse limit from $250m to $300m in July 2023. This provides further optionality to control & lower deposit pricing where possible.

  We remain well positioned for a successful term out of this portfolio once capital markets return to a more normalized state. It is important to note that we are not bound by time pressures on this portfolio to complete a trade, given our contractual terms with BEN, our ability to generate deposits to fund our new lending and strong capital base.

- Net Interest Income grew 46% to $18.8m for the year. CAGR of 62% over the last 2 years.
- The NII growth being a significant contributor to the bank's Total Revenue Growth, has resulted in Positive JAWS of 9.70%, and also demonstrates that we remained disciplined with our expense management over the year.

  This in turn, has led to a Positive Cash NPAT being achieved for Q4, which saw Cash NPAT up 30% for the year.

- Net Interest Margin was up 6bps to 1.32.
- BNK had a Capital Adequacy Ratio of 22.84% which is a strong capital position at year end.

We have built a strong platform for growth and we are proud of these achievements.

- Importantly, the strategic decision to expand the business into a higher margin lending space has proven successful, exceeding the higher margin expansion target and achieving a $195m portfolio.
- The margin transformation from this strategy has been a significant factor in BNK achieving cash profit in Q4 ahead of schedule, and forms one of the foundation pieces to which BNK will benefit from into the future.
- The growth of BNK's portfolio was also achieved without sacrificing credit quality.

In terms of our Strategic Highlights:

- Importantly, we distributed proceeds of $60m from the Finsure sale to shareholders as a $20m capital return and a fully franked special dividend of $40m.
- We also strengthened our shareholder base by welcoming non-bank lender Firstmac as a substantial shareholder. Both Firstmac and Somers Limited are important institutional investors in BNK with 19.9% and 18.16% holdings respectively. Both have key non-bank lending experience in the Australian mortgage space and add significant strength to our shareholder base.

Significant Board changes:

- Firstmac have nominated David Gration to the Board to replace John Kolenda who stepped down in March of this year. Mr Gration is a highly experienced financial services executive with over 30 years of retail banking experience. Mr Gration will be an immensely valuable member of the board as the business continues its growth trajectory, business diversification and margin transformation.
- Michelle Guthrie resigned as a director in July 2023 to pursue other interests.
- Don Koch, BNK's long serving Chairman also announced his retirement from the Board this year.
- On behalf of the Board and wider company, I would like to extend a sincere thank you to Don and acknowledge his many contributions to this company. Don has overseen what has been a transformational period for BNK and created a great platform to build on. Don, thank you for your significant contributions and we wish you all the best for the future.
- It is important to note that Daniel Crennan has recently informed us that he will be stepping down from the board immediately following this meeting. Given the short notice it has not been possible to formally nominate a replacement at today's meeting. Somers Limited have nominated Warren

McLeland to the Board as a non-independent director to replace Daniel Crennan and will join the board, subject to regulatory approval and completion of the fit and proper probity process. Mr McLeland is the current Non-Executive Chairman of Resimac and was formerly the Executive Chairman of Resimac. He is a former stockbroker and investment banker with over 35 years of experience in domestic and international financial services and acts as an adviser in funds management and business strategy to companies operating in the Asia Pacific region.

- We would also like to thank John Kolenda, Michelle Guthrie, and Daniel Crennan for their contributions.

External Auditor

- Separately, BNK recently ran a competitive tender process this year for our external audit services and the outcome of this process is that we have selected Grant Thornton as our new auditor to replace KPMG. We are currently working with ASIC to complete the regulatory approval processes and, subject to ASIC's approval, we expect that Grant Thornton will be able to commence as our new external auditor shortly after the AGM. Shareholders will then be asked to ratify the appointment at next year's AGM.

- Finally, I want to acknowledge our staff across the Group for their continued commitment and efforts, and I also want to thank our shareholders for your continued support of the company.
- I will now hand over to CEO Allan Savins who will look at the year to come.

CEO's Address

In the first quarter our strong momentum continued.

- Total deposits at a record high of $1.45b, an increase of 16% from Q4 FY23.
- BNK loan book at a record high of $1.41b, an increase of 5% from Q4FY23
- Organic 'on balance sheet' lending settlements of $150m for the quarter, an increase of 40% from Q4 FY23. Mainly driven by a surprising uplift in Residential loans (both owner occupied and investor). This pipeline momentum will continue through until the end of the year, particularly for investment home loans that attract a greater margin.
- Our portfolio metrics continue to be healthy @ 31 October 2023.
- With the expansion into higher margin lending, the Loan to Value mix at settlement continues to strengthen, with 93.8% of the portfolio having an LVR less than or equal to 80% (only 0.50% above 90%).
- Higher margin residential loans sit at 10.6% of the Portfolio … borne out through the Goldman Sachs specialist warehouse portfolio acquisition in March 2023.

- We have continued the theme set last year of applying selective pricing and concentrating more on obligor and asset quality over quantity with our Commercial originations. Commercial assets now represent 5.4% of the portfolio.

- To be clear, these higher margin loans are secured by either residential or commercial property…these are not short term, cash flow loans, but rather traditional term facilities, for investment or owner occupation.
- Offset account balances have increased ~8% from June 23 to $96m, with approx. half of all loan accounts (49.9%) still ahead in their payments. These metrics continue to provide an effective buffer for borrowers.
- The mortgagee in possession rate is maintained at zero, together with No credit write-offs recorded to date.
- We have seen 5 new hardship cases since June 2023, which now stands at 7.
- Loan accounts in arrears > 30 days have increased marginally since June 2023 to now total 24.
- Loan accounts in arrears > 90 days have increased from 4 @ 30 June 2023 to 11.
- The Group believes it remains well provisioned, as we continue the expansion into higher margin lending.
- We will continue to resource into areas like cybercrime and arrears management wherever necessary to support the business performance.
- In terms of portfolio dynamics, Fixed Rate loans now make up 20% of the loan book (down from 24% @ 30 June 23).
- Importantly, 51% of the Fixed rate portfolio will reprice over the remaining months of FY24. As customer's fixed-rate loans mature, our retention rates are showing that our customers are typically choosing to refinance on a variable rate mortgage with us. This provides BNK with a NIM tailwind opportunity through our loan retention efforts.
- Fixed Rate lending has now reduced to below 1% of new loans disbursed since June 2023.
- BNK continues to be well capitalised with a CAR of 19.9% @ 31 October 2023, and we remain committed to our strategy of growing our higher margin product solutions, whilst carefully managing our funding costs, liquidity position and operating costs.

Outlook for Remainder of the Year

- While FY23 was a strong year for BNK, we have seen recent market commentary from the major banks that despite their growth, mortgage books and deposits are being squeezed by competition and high interest rates.
- As inflationary pressures continue to eat into household budgets and customers become more demanding, banks will have to perform a juggling act to attract and retain customers in a competitive market while still maintaining credit quality and keeping funding costs down.
- BNK of course is not immune from this and these headwinds threaten to delay our cash profitability objectives for FY2024.

- As the mortgage market has cooled, competition for home loan customers has intensified. While BNK maintains a consistent and disciplined approach to mortgage pricing, we expect competition to remain fierce as more fixed rate home loans expire and borrowers move to variable rates.
- We have continued to see competition intensify over the past 6 months in the commercial lending space as well…we are not willing to compete necessarily on price alone as Return on Capital outcomes remain at the forefront of our strategy.
- Competition for deposits is just as intense as customers shop around for high-yielding savings accounts. We have responded by reducing our customer deposit concentrations and diversifying our product mix as much as possible away from the more expensive term deposit funding.
- While we remain well-capitalised, we anticipate that APRA's recent announcement regarding new capital and liquidity requirements for small banks will have an impact on our liquidity position in the medium term. That said, our reported regulatory capital ratios already reflect the impacts of market value adjustments on our investments and the proposed changes would align BNK's MLH ratios. APRA is consulting with industry with implementation planned for January 2025 with proposed transition arrangements.
- Importantly, BNK has now repaid all its Term Funding Facility obtained from the RBA which was put in place to support the economy during the COVID-19 pandemic.
- Despite the challenging market conditions, we remain focused on transforming our technology stack to drive efficiencies, open new markets, and simplify processes for clients and employees.
- We recruited our first Chief Information Officer or CIO in May 2023 to lead the necessary technology transformation that will enhance our capability and drive efficiencies.
- Our CIO will oversee our front-end website development to improve our service offering, as well as overhauling our back-end infrastructure to streamline our CRM processes and provide better options for digital customers. We will also be creating a New Payments Platform capable digital banking app for our customers. This will enable faster payments between customers of participating Australian financial institutions.
- These are all critical steps in BNK's evolution from a rate driven distribution model to a customer centric digital relationship model that will ultimately help us to open new markets and grow our existing customer base.
- And we will continue to seek opportunities for new deposit and asset classes, and inorganic growth prospects as they emerge.

ENDS