

INVESTOR PRESENTATION

1H'23 Financial Results

24 February 2023

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Agenda



1H23 Results Overview

Allan Savins
Chief Executive Officer

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1H23 Financial Results

Andrew Kitchen
Group CFO

pg 11



Strategy update and outlook

Allan Savins
Chief Executive Officer

pg 16



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1H'23 Results Overview

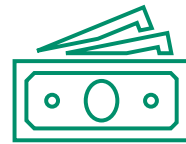
Allan Savins

Chief Executive Officer



Track record of accelerated lending growth

- ~\$1.2 billion of on-balance sheets loans consisting of ~96% prime residential home loans
- Cumulative average growth rate (CAGR) in loans of 95% over the last two financial years.
- Consistent growth in Net Interest Income (NII)



Diversified funding base

- Loan book funded through a combination of deposits, prime warehouse and subordinated debt
- ~\$1.2 billion of customer deposits
- Direct loan to deposit ratio of 78% demonstrating ability to raise deposits to fund growth, despite the current environment.



Innovative product range

- Offers a diverse product range to assist a larger customer market, whilst providing a 'one-stop' shop for brokers, creating opportunities to attract more business to new and through existing customers.
- Award winning lender

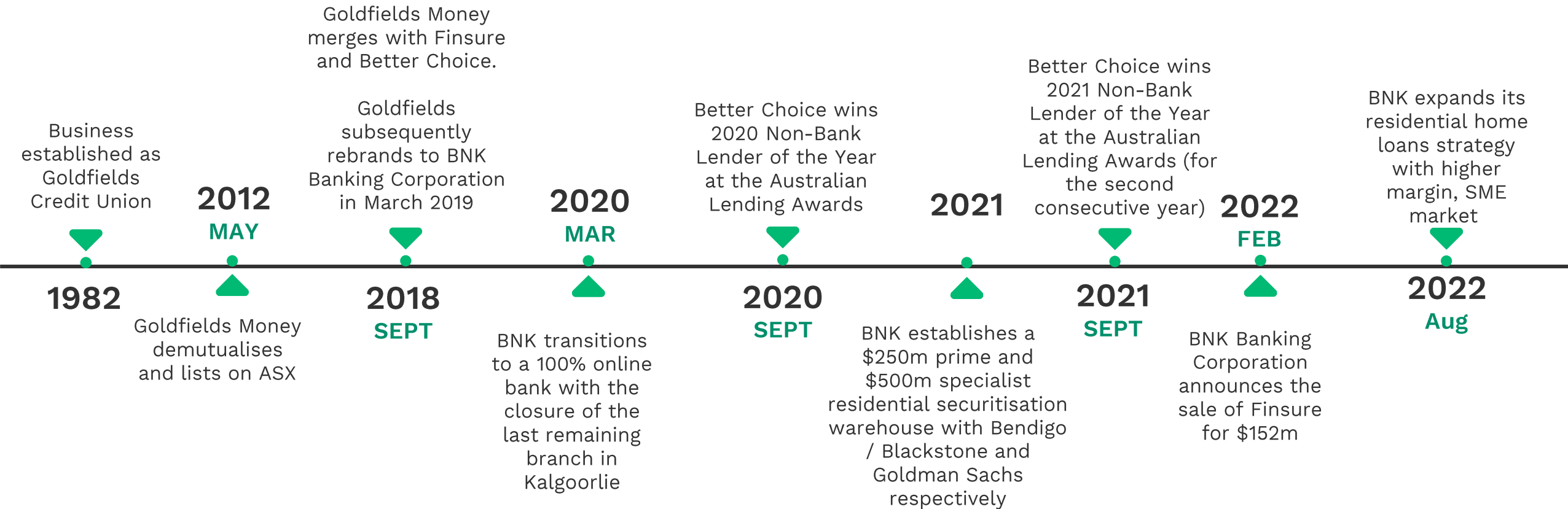


Focus on SME market

- Strategy pivot to away from 100% residential home loans to higher margin, SME market to increase returns.
- Now offer an extended suite of SME banking products: commercial SMSF, transaction accounts & term loans
- Distribution through our existing and proven third-party broker network consisting of ~8,500 brokers

BNK's evolution

Proud 40-year operating history



1H'23 Results Overview



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\$(2.7)m

Group Statutory

NPAT
Down \$(59)m on 2H'22

\$(1.4)m

Cash NPAT*

Down \$(0.3)m on 2H'22

\$11.2m

Operating Expenses

Up \$(1.6)m on 2H'22

\$2.8bn

Total Lending Portfolio

Up 10% on 1H'22

\$(2.6)m

Underlying NPAT*

Up \$2.3m on 2H'22

\$129.3m

Group Net Assets

Down \$(61)m on 2H'22

\$8.7m

Net Interest Income

Up \$1.8m on 2H'22

1.33%

Direct Net Interest
Margin (NIM)

Up 0.1% on 2H'22

Financial highlights

- Achieved cash profit in the months of December 2022 and January 2023, driven by revenue growth and stringent cost control
- Income growth of 163% exceeding expense increase of 16%
- Strong growth in total lending portfolio to \$2.8 billion, up 10% on 1H'22
- Deposits up 43% from 1H'22 to \$1.2 billion, demonstrating BNK's ability to fund self-fund growth and reducing risk in the loan book.

Strategic highlights

- Good progress on SME strategy with commercial settlements now contributing approx. 10% of total settlements for 1H'23.

Well capitalised

- Capital Adequacy Ratio - 25.6%

*Normalised for tax

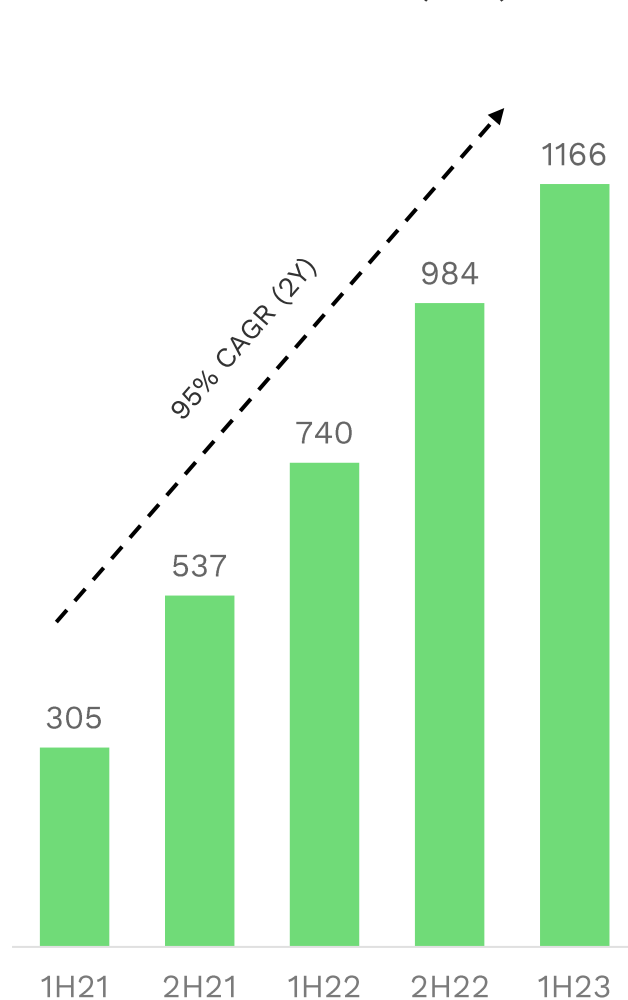
BNK Loan Book, Deposits & Net Interest Income

Consistent growth achieved across lending and deposits

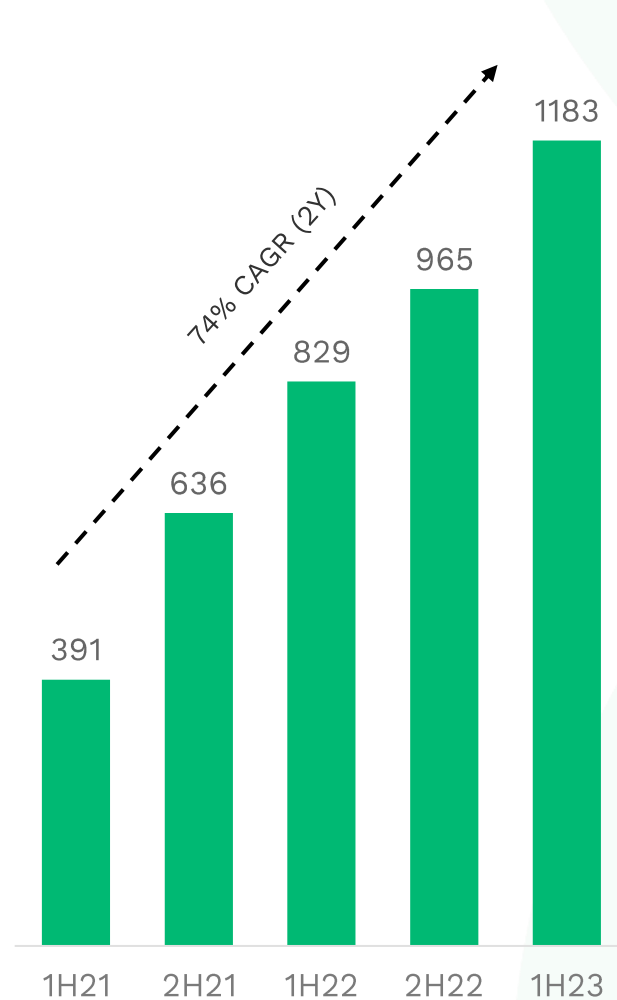


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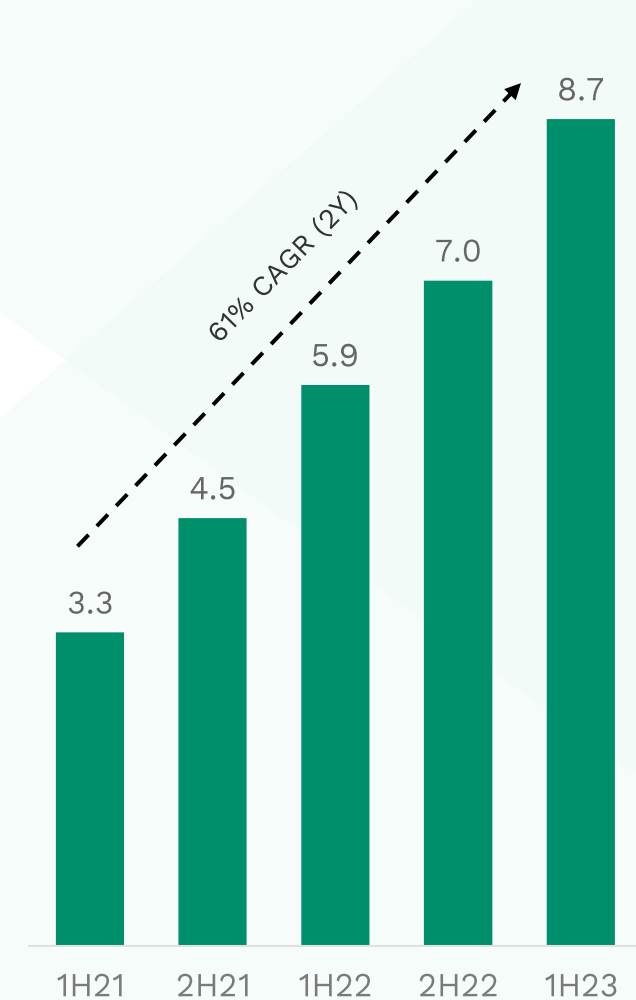
Loan book (\$m)



Deposit book (\$m)



Net Interest Income (\$m)



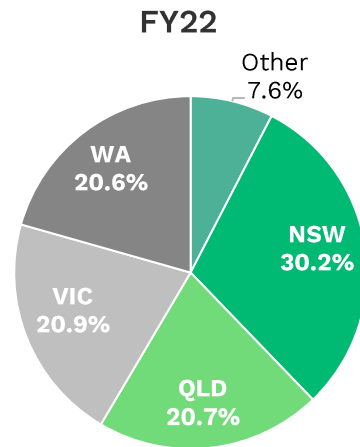
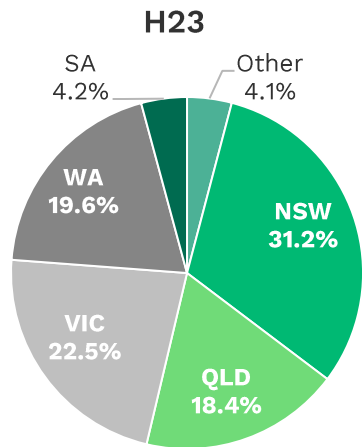
Continued diversification in the BNK-funded lending portfolio

Improved geographic mix and lending to owner occupiers



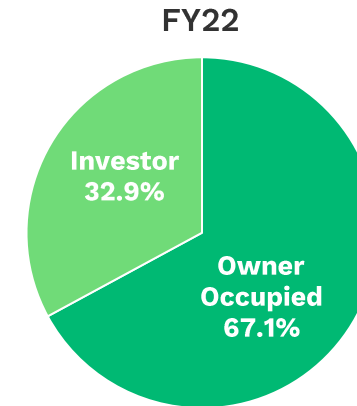
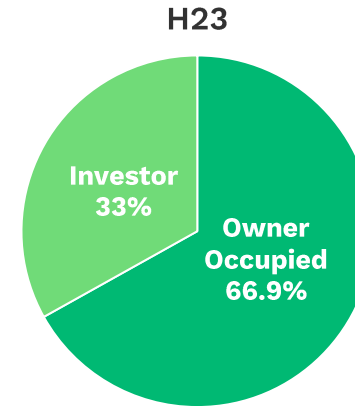
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On Balance Sheet Loans



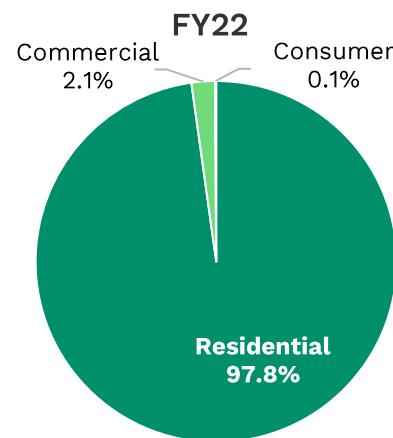
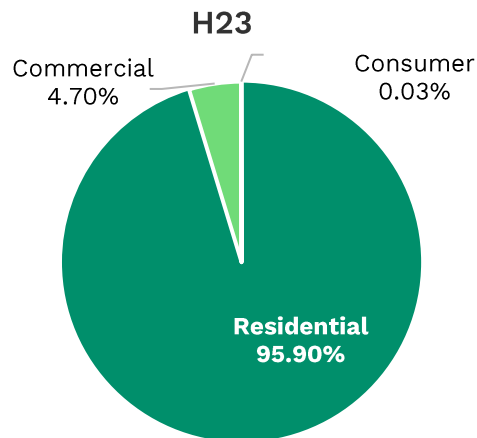
Increasingly diverse geographic customer base de-risks lending portfolio.

Portfolio By Loan Type



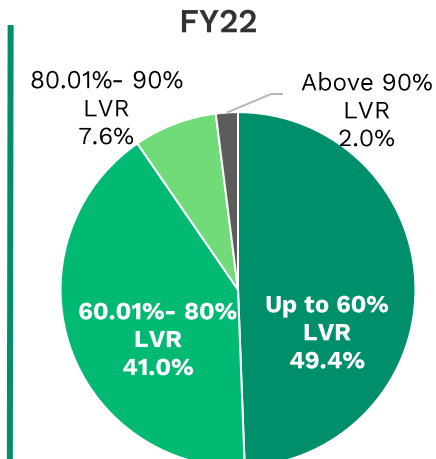
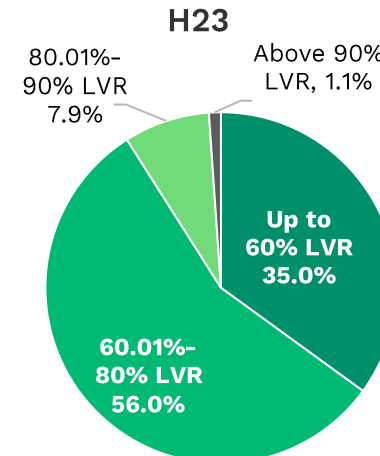
Consistently skewed to an owner occupier customer base, reducing risk in loan book.

Portfolio Mix By Loan Category



Strong growth in commercial settlements, albeit off a low base, in line with BNK strategy to sustainably grow in the SME market.

Portfolio Mix By LVR



Overall LVR consistent despite portfolio mix change. 90% of borrowers with an LVR at or below 80%.

Strong Cornerstone Portfolio

BNK has delivered growth while strengthening the underlying portfolio dynamics:



Loan quality control maintained

- Tighter lending controls to high debt to income borrowers maintained.
- Rate servicing buffer is maintained at 3.0%.



Loan size increased

- Average loan size increased from \$340k to \$357k during 1H'23



High quality customers

- Offset account balances increased from \$87M to \$99M
- 16% of customers are 12 months ahead of their loan repayment
- 11% of customers are 24 months ahead of their loan repayment
- Mortgagee in possession rate is maintained at 0
- No credit write-offs recorded for 1H'23



Majority of loans on variable rate

- Fixed Rate loans make up 29% of the loan book as at 1H'23
- BNK has reduced Fixed Rate lending to 11% of new loans during 1H'23
- Maximum Fixed Rate term is 3 years
- Fixed rate portfolio will reprice by 9% over 2H'23 and a further 52% over FY24.

1H'23 Financial Results

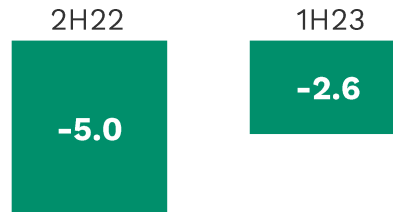
Andrew Kitchen

Chief Financial Officer

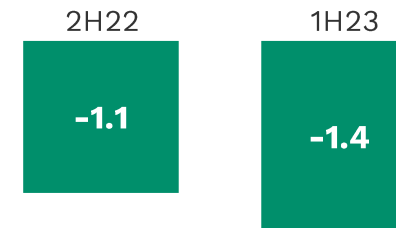
Performance

On track to deliver
Q4'23 Cash Profit

Underlying NPAT* (\$m)



Cash NPAT* (\$m)



Cash NPAT bridge* (\$m)



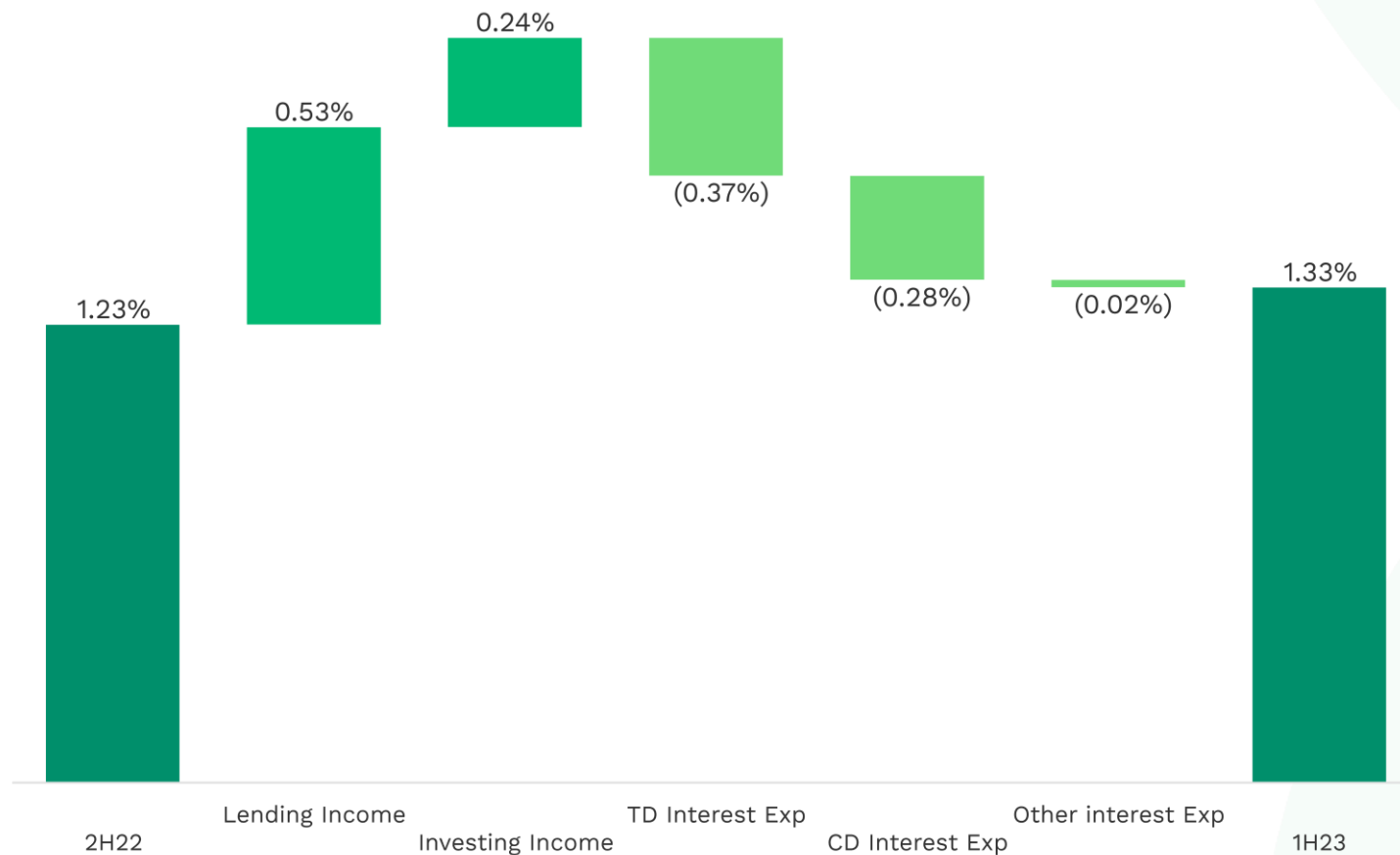
* Underlying NPAT and Cash NPAT presented are tax normalised assuming effective tax rate c. 30%

Bank Net Interest Margin

NIM grows despite competitive mortgage market



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- Net Interest Margin trending in the right direction, demonstrating BNK's sound investment strategy.
- Opportunities to improve NIM:
 - Fixed rate repricing, and
 - Expansion to higher margin SME market.

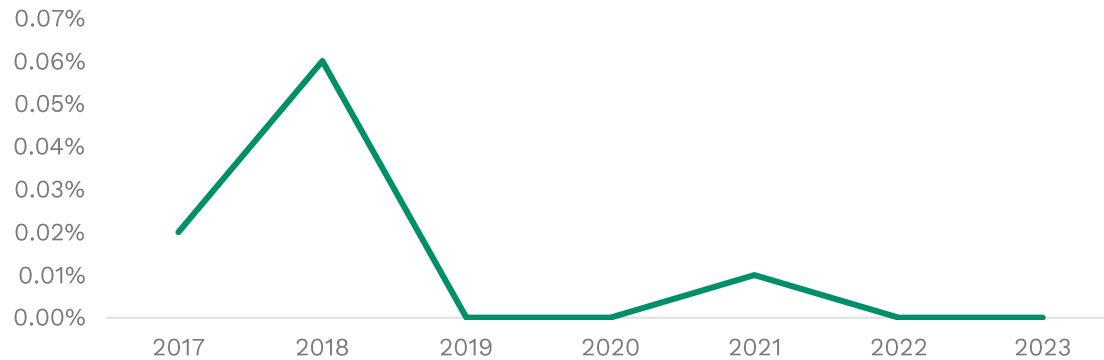
Credit Quality & Loss Protection

Growth achieved without sacrificing credit quality

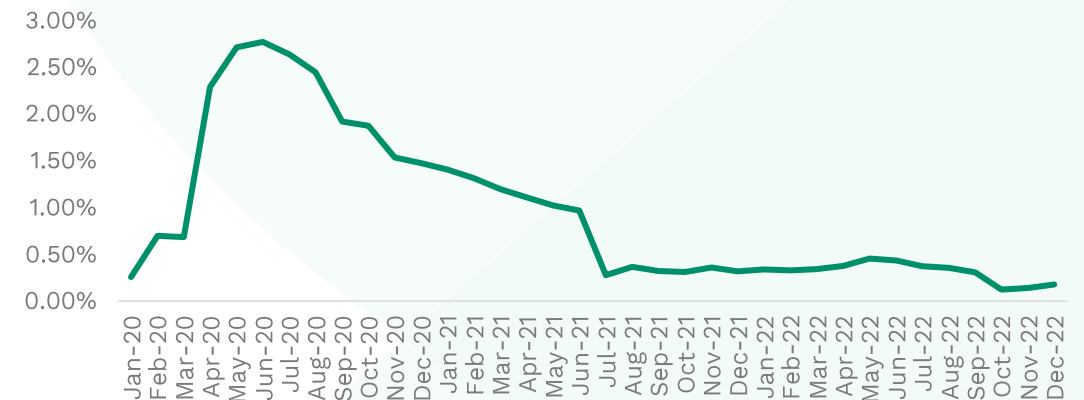


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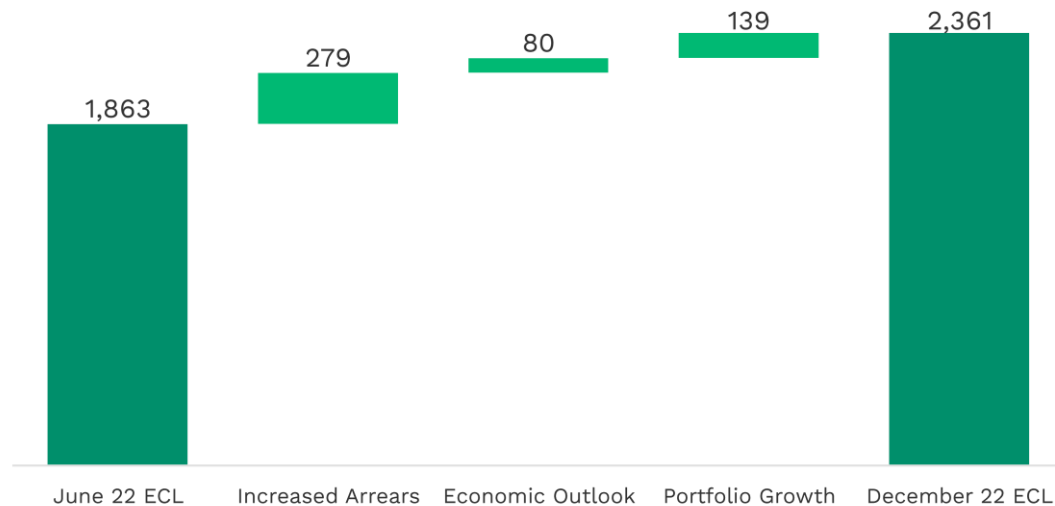
Historical Credit Charges (% of loan book)



Portfolio Hardship Rate (% of customers)



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



Estimated Credit Losses (bps)

	1H23	FY22
Estimated Credit Losses (bps)	21	21
GDP growth (%)	1.5	1.8
Unemployment (%)	3.75	4.9
Residential property price growth (%)	-5.0	12.2

Strategy Update and Outlook

Allan Savins

Chief Executive Officer

Strategic Focus



STRATEGY

TARGET

FOCUS AREAS

GROWTH



Targeting an **increase in BNK's balance sheet loan book** to over \$3bn

- Residential portfolio will remain the cornerstone to build upon
- Uplift resourcing capability (namely in Risk & Compliance, Technology, Capability) to support growth
- Upgrade technology stack to deliver capability
- Strategic white label partnerships (BNK and Goldman Sachs funding)
- Looking for inorganic growth opportunities to grow portfolio
- Rebranding to BNK across all channels

MARGIN



Move into **high margin SME lending** with 15-20% in commercial property settlements in FY23

- Extend suite of SME banking products (initially commercial secured loans and transaction accounts)
- Developing new deposit products and markets
- Sustainably grow the SME lending book

PROFITABILITY



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

- On track to deliver Q4 FY23 cash profit bringing forward target of FY24
- Continued maturity of Goldman Sachs specialist warehouse
- Focus on optimising use of capital consumption
- Solid revenue growth ahead of increase in expenses

Summary and outlook

- ✓ Clear priorities will drive strategic growth within risk appetite
- ✓ Extend suite of SME banking products tailored to our target market
- ✓ Grow recurring revenue base, whilst maintaining disciplined cost control
- ✓ Optimise capital consumption through selective product offerings
- ✓ Scale existing technology platform and expertise
- ✓ Grow and retain our talent

Strategic focus on SME market

Expand into higher margin SME market to increase returns



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Rationale



↑16%

Increase lending to medium businesses from Aug 2019 to Aug 2022¹

↑15%

Average value of loans made to small businesses from July 2021 to July 2022¹

SME capabilities

Capital

- Finsure sale proceeds have enabled a greater emphasis on higher margin loans.

Capability

- Existing dedicated commercial underwriting team with over 25 years' experience.
- Since 2019, BNK has been underwriting and servicing a commercial funding program on behalf of an external third-party with approximately \$230m underwritten and settled to date, with zero arrears.

Distribution

- Key markets: NSW & VIC.
- Distribution through our existing third-party broker network – proven ability to originate assets.

High margin SME product range

- Term Loan (Full Doc)
- Term Loan (Alt Doc)
- Commercial SMSF
- Lease Doc
- Broker Trail book loan

1H'23 achievements

- Commercial settlements now contribute approx. 10% of 1H'23 total settlements
- Market expansion into SME segment possible due to our existing broker network: additional 804 brokers accredited during 1H'23.

¹ABA SME Lending Report 2022.

Group Financial Snapshot



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	1H23	2H22
Bank Underlying NPAT (\$m)	(2.7)	(0.7)
Bank Underlying NPAT* (\$m)	(2.6)	(4.9)
Bank Cash NPAT* (\$m)	(1.4)	(1.1)
Group Statutory NPAT (\$m)	(2.7)	56.7
Group EPS	(0.02)	0.48
Group Net Income (\$m)	7.9	3.0
Operating Expenses (\$m)	11.2	9.6
Direct Net Interest Margin (Avg)	133 bps	123 bps
Capital Adequacy Ratio	25.6%	33.5%
Total Lending Portfolio (\$m)	2,795	2,669
Cost to Income Ratio	141%	317%
MLH (Spot)	31.6%	32.6%
Expected Credit Loss (ECL)	21 bps	21 bps

*Normalised for tax

Underlying to Statutory NPAT Reconciliation



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	Group Interim Financials - Reconciliation	1H23	2H22
	Data in \$000's	Overall	Overall
Half Year	Underlying NPAT (Tax Normalised)*	(2,635)	(4,950)
	Underlying NPAT (Management Reported)	(2,684)	(657)
	Revenue Adjustments		
	Net Other Income		(88,089)
	Expense Adjustments		
	Employee Benefit Expenses		(1,742)
	Professional Services		(4,416)
	Tax		(24,579)
	Statutory NPAT	(2,684)	56,695

*Tax booking impacted by FY22 capital return and dividend payment.

An adjustment has been made to normalise tax assuming c. 30% effective tax rate.

Balance Sheet

Group (\$m)	1H23	2H22	\$ Var.	% Var.
<u>Assets</u>				
Cash & Equivalents	426.7	412.1	14.6	3.5%
NPV Asset	18.4	21.0	(2.6)	(12.3%)
Loans & Advances	1,173.0	990.1	182.9	18.5%
Other Assets	18.1	18.5	(0.4)	(2.3%)
Total Assets	1,636.2	1,441.8	194.4	13.5%
<u>Liabilities</u>				
Deposits	1,183.0	964.6	218.4	22.6%
Other Liabilities	323.9	286.8	37.0	12.9%
Total Liabilities	1,506.9	1,251.4	255.5	20.4%
<u>Equity</u>				
Contributed Equity	100.2	118.9	(18.7)	(15.7%)
General & Other Reserves	1.9	1.6	0.3	16.2%
Retained Earnings	27.2	69.8	(42.6)	(61.0%)
Total Equity	129.3	190.4	(61.1)	(32.1%)