BNK Banking Corporation Limited
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ASX Release, 27 November 2024

2024 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**") 2024 Annual General Meeting (**AGM**), which will be held today commencing 12:30pm (AEDT) / 9.30am (AWST).

The AGM will be held as a hybrid meeting, being a meeting conducted both in-person at Grant Thornton, Grosvenor Place, Level 26, 225 George Street, Sydney and via an online virtual meeting platform at https://investor.automic.com.au

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

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Chairman's Address

FY24 has been a year of significant achievement for BNK. Our key achievements include:

- We have continued the transformation to sustainable profitability in FY24. Despite the challenging market conditions faced by the banking sector throughout FY24, our Underlying NPAT loss narrowed to ($900k) being an improvement of $600k from the previous corresponding period.
- Further, the 2H24 Underlying NPAT was positive at just under $300k, up $1.5m on 1H24. Of particular note, the second half saw the last 4 consecutive months of positive underlying NPAT.
- Statutory NPAT decreased by $2.8m compared to FY23, reaching ($6.7m), primarily due to a re-assessment of the carrying value of goodwill, resulting in a $3.6m write-down. This adjustment had no impact on regulatory capital ratios.
- Continuing to refine our asset mix by incorporating higher margin products, while maintaining a strong emphasis on asset quality and disciplined cost management.
- Good retention of fixed rate borrowers when their fixed rate term expired; and
- Upgrade of our risk management and other systems. The first stage of the technology transformation has been successfully concluded, resulting in increased efficiencies, and streamlined internal processes relating specifically to new commercial loan originations. Phase 2 is currently in progress, adopting a phased product implementation approach aimed at transforming technology for the larger residential portfolio and deposit operations.

Some important call outs for FY24:

- Our higher margin lending portfolio grew to $257m, an increase of 32% on FY23.
- We established and successfully tested a self-securitisation facility for liquidity management purposes with the Reserve Bank.
- Underlying NPAT has improved by a further 40% YoY, while NII increased 3% on FY23.
- We maintained strength in our residential mortgage portfolio, with no write-offs in FY24.
- The company had anticipated an increase in arrears across FY24 from historically low levels due to the rising interest rate environment, with arrears levels consistent with trends observed across the industry.

- As of 30 June 2024, arrears >30 days stood at 1.64% for the Residential loan book and 0.89% for the Commercial loan book. Arrears >90 days for Residential loans were at 0.79%, representing 18 accounts, while the Commercial loan book had 3 customers in the >90 days category, remaining within tolerance levels.

- And finally, our strong capital position underscores the financial strength of the business. As of 30 June 2024, our Capital Adequacy Ratio stood at 23.4%, up 52 basis points from the previous comparable period.

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

- We surpassed our FY24 goal of achieving 20% of total settlements in higher margin assets, with higher margin lending (both organic and inorganic) accounting for 28% of our total settlements for the year.

- The strategic expansion from FY23 to higher margin lending business to achieve sustainable profitability is starting to bear fruit.

- There has been a deliberate focus on portfolio composition rather than headline growth.

- Higher margin assets comprised ~19% of the portfolio at year end. This has seen a recovery in the 2H24 NIM, up 28bps from 1H24 to 1.20%.

- Focusing on portfolio composition has also enhanced our capital capacity, enabling us to achieve higher-margin business targets.

- The transformation of BNK's portfolio was accomplished without compromising credit quality, positioning us well to continue this progress and build positive momentum in FY25.

In FY24 we changed auditors from KPMG (which I thank for many years great service) to Grant Thornton who we welcomed as our new auditors.

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

Thank you, Jon. I'd also like to take this opportunity to thank the BNK team for their dedication over the past year. While we achieved an encouraging result in FY24, business transformation is an ongoing journey—one that management is fully committed to driving forward in a steady and considered way.

In the first quarter of FY25 we continued the process of transforming the balance sheet and creating the capacity and profitability before we selectively grow assets in the high margin, capital efficient areas.

Our unaudited underlying profit for Q1 FY25 has reached $0.784 million, a substantial turnaround from the loss of $0.396 million we experienced in Q1 FY24. Furthermore, our unaudited statutory profit stands at $0.273 million, compared to a loss of $0.550 million in the same quarter last year. We do expect there will be some variability in our quarterly results but nonetheless this notable improvement underscores our strategic focus on portfolio optimisation and cost management.

Our Net Interest Margin (NIM) has shown an increase of 18 basis points, rising from 1.20% in the second half of FY24 to 1.38% in Q1 FY25. Compared to Q1 FY24, this marks an impressive increase of 42 basis points. This improvement in NIM is a testament to our efforts to enhance yields on investments and manage competitive pressures in both lending and deposits.

Our loan book currently stands at $1.3 billion, reflecting an 8% decrease from FY24. This intentional shift in portfolio composition aligns with our strategy to move away from lower-margin prime residential loans and focus on higher-margin business, which now comprises 20% of our loan book. Future asset growth is crucial as we continue to optimise our loan book for better profitability.

On the deposit side, total deposits have decreased by 10% from FY24, amounting to $1.1 billion. Our deposit mix now comprises 53% Call Accounts and 47% Term Deposits, balancing our ongoing focus on margin management and liquidity management.

Our Deposit to Loan Ratio is strong at 90%, and we have maintained a robust capital position with a capital adequacy ratio of 25.8%, up from 23.4% as of 30 June 2024. This strengthened capital adequacy ratio, along with the healthy balance between deposits and direct loans, showcases our ability to attract deposits and support growth as required.

In addition, our off-balance sheet Goldman Sachs lending settlements reached $133 million, making a significant contribution to the generation of non-interest income for the quarter. This strong performance underscores our ability to diversify income streams and maintain financial stability.

Our portfolio metrics continue to be healthy

- The Loan to Value mix at settlement remains strong, with >90% of the portfolio having a Loan to Value Ratio at or below 80% (only 0.60% above 90%).

- We have continued the theme set in FY24 of applying selective pricing and concentrating more on obligor and asset quality over quantity with our Commercial originations. Small ticket commercial assets now represent ~7% of the portfolio out of the 20% higher margin asset mix.

- 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.

- Slight decrease in offset account balances from $79m in June 24 to $77m in Oct 24, with approx. 46% of all loan accounts still ahead in their payments, down from 49.9% in June 24. These metrics continue to provide an effective buffer for our borrowers.

- BNK now has 1 mortgagee in possession case with no loss anticipated, and still with no credit write-offs recorded to date.

- We have no new hardship cases since June 2024, which stands at 1 matter.

- The Residential loan book's arrears over 30 days improved to 1.42% as of the end of October, down from 1.64% at 30 June. Similarly, loans in arrears over 90 days decreased from 0.79% at 30 June (18 accounts) to 0.73% as of 31 October 2024 (16 accounts).

- Our Commercial arrears remain within acceptable limits, with 4 customers in the 90+ days arrears category—an increase of 1 since 30 June. As of 31 October, arrears over 30 days in the Commercial loan book stand at 1.12%, solely attributable to these 4 customers.

- The Group remains well provisioned, as we continue the expansion into higher margin lending.

- In terms of portfolio dynamics, Fixed Rate loans now make up only 5% of the loan book or $58m (down from 8% at 30 June 24).

- As customer's fixed-rate loans mature, our retention rates are continuing to show that our customers are typically choosing to refinance on a variable rate mortgage with us. This will continue to provide BNK with a small NIM tailwind opportunity through our loan retention efforts.

- And as per previous guidance, no new Fixed Rate business is being originated.

Outlook for Remainder of the Year

- The outlook for the Australian economy and mortgage market for the remainder of FY25 is mixed. Economic growth is expected to remain subdued due to persistent cost-of-living pressures, higher interest rates, and global uncertainties. However, the labour market remains relatively strong, and inflation is gradually easing.

- In the mortgage market, demand is likely to be tempered by affordability constraints and rising repayment pressures, though refinancing activity will remain robust. Competitive pricing and a focus on higher-quality lending will be key themes as lenders navigate these conditions.

- While we are encouraged by our financial progress, we remain mindful of the challenges ahead. The market remains intensely competitive for both assets and deposits, and our half-year results will reflect the ongoing impact of our strategic adjustments and the broader competitive environment. It's important to note that quarterly profit and net interest margin improvements may not follow a linear trajectory as we continue to reposition our balance sheet and establish new distribution channels. However, these efforts are firmly aligned with our focus on achieving sustainable, long-term growth.

- Higher margin assets / higher return of capital opportunities will continue to be the primary area of focus for BNK.

- Competition in the small-ticket secured commercial lending space is expected to remain intense throughout the remainder of FY25. However, we remain committed to disciplined Return on Capital outcomes and are not prepared to compete solely on price.

- Strategic partnerships and portfolio funding opportunities will be a key area of focus for the remainder of FY25, supporting future NIM and/or Return on Capital outcomes as we seek to initially diversify our distribution capabilities whilst eventually expanding our asset class appetite.

- An essential factor for achieving sustainable profitability continues to lie in the composition of the portfolio, coupled with growth in higher margin business.

- The medium-term target established two years ago aims for a 30% concentration of higher-margin assets to enhance the asset mix. The run-off of the low-margin, low profit Prime residential loans will be ongoing which will optimise our Risk-Weighted Assets on the balance sheet, enabling the continued reallocation of capital to support high-margin loan growth.

- Competition for deposits remains just as intense as customers shop around for high-yielding savings accounts. We have responded by reducing our customer deposit concentrations (to reduce risk) and diversifying our product mix as much as possible and continue to actively manage our funding sources to meet both margin and liquidity needs.

- We maintain a strong capital position, and APRA's recent announcement regarding the phasing out of AT1 capital will not affect the bank. We continue to closely monitor our capital requirements and will provide updates to the market as necessary. At this time, we do not expect to undertake a capital raise for calendar year 2025.

- In terms of APRA's intentions regarding liquidity requirements for smaller banks, our reported regulatory capital and liquidity ratios already reflect the impacts of market value adjustments on our investments. At this time, we see no immediate impact on our liquidity position from the proposed APRA rule changes.

- Despite the challenging market conditions, we will continue to resource into areas like cybercrime and arrears management wherever necessary to support our customers and the business performance.

- Phase 2 of the technology transformation continues in earnest.

  Next year BNK will be launching several digital initiatives, beginning with the launch of our new retail website in February. We are also overhauling our backend infrastructure over the next 12 months to improve the end-to-end customer experience. This includes a phased product delivery cycle beginning with Term Deposits, new internet banking app and payments platform allowing 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 retail model that will ultimately open new revenue streams and grow our existing customer base.

- And finally, we will continue to explore opportunities for new deposit and new asset classes, together with inorganic prospects, which may also include selective portfolio adjustments, as part of our broader strategic focus.

Thank you, and I will now hand back over to our Chairman, Jon Denovan.

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