BNK Banking Corporation ASX:BBC

FY2021 Half Year Results

February 2021

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Make a Better Choice
FINSURE

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FY2021 Half Year Results

Brett Morgan
Chief Executive Officer

BNK Banking Corporation

Our businesses

BNK Banking Corporation

Bank

A fast growing challenger bank with a mortgage focus.

BNK

Better Choice

Make a Better Choice

Aggregation

A mortgage aggregation fintech servicing mortgage brokers across all lending products.

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Business Snapshot 1H21

Bank

Total Lending Settlements
$193m

Of which On Balance Sheet Settlements
$42m

Lending Portfolio
$2.4b

Of which On Balance Sheet Lending
$306m

Deposit Book
$391m

Of which Transaction Accounts
$255m

Aggregation

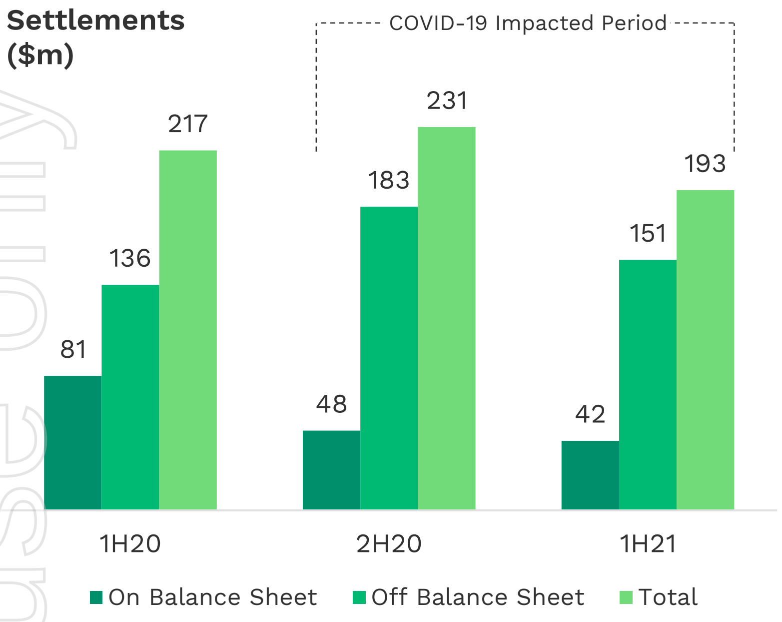
Aggregation Settlements
$9.9b

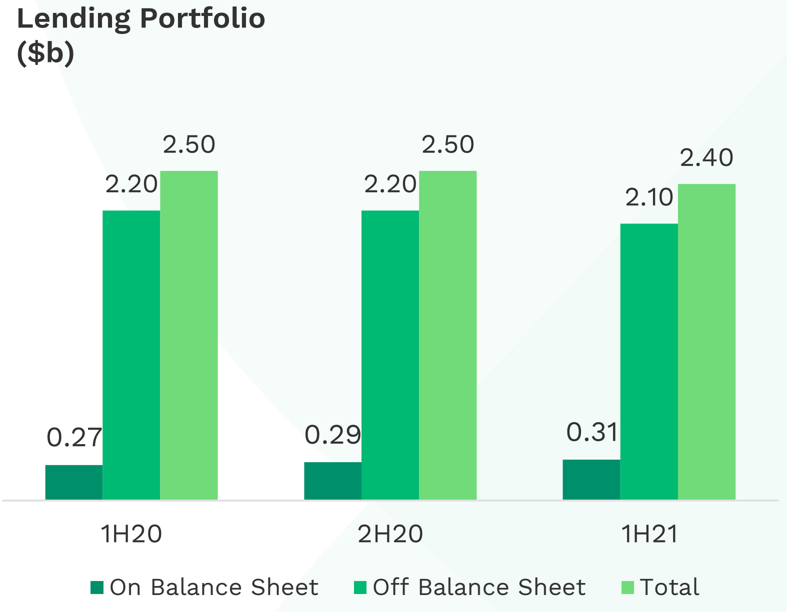
Aggregation Book
$50b

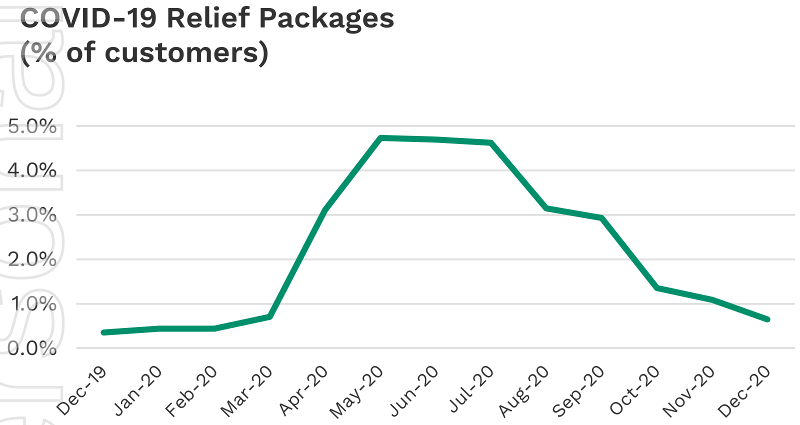
Finsure Brokers
1,910

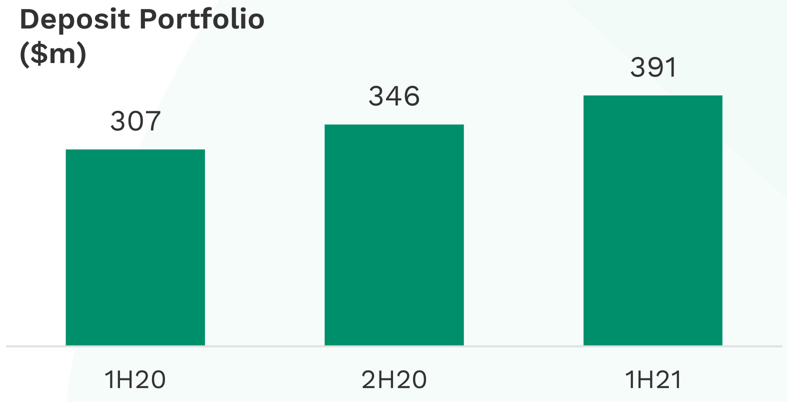
Bank Highlights 1H21

Given the uncertain impact from COVID, BNK proactively reduced on balance sheet lending in 2H20 and 1H21 to conserve capital









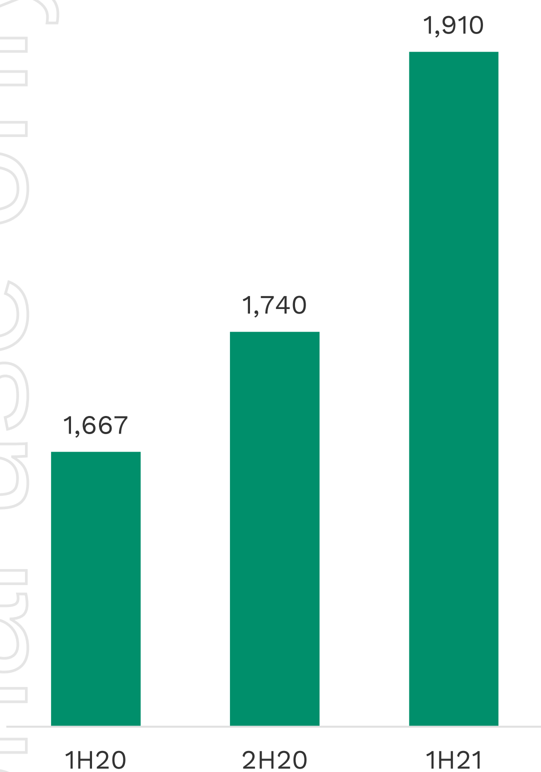
Bank Highlights 1H21

- New C-Suite and key senior hires complementing existing management strength
- Recommenced on balance sheet lending growth
- T2 subordinated note launched to support lending growth
- Award winning product range

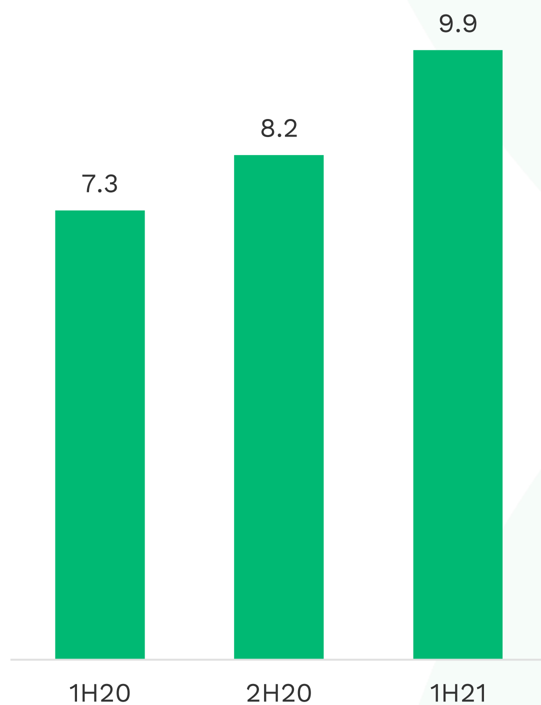
- Implemented key loan origination initiatives supporting broker experience and delivering operational efficiencies
- Continued growth in low cost deposit generation
- COVID impact negligible with relief packages down to 0.7% of balances (as at 31 Dec 2020) and continues to decrease
- ATM recovery with insurer finalised

Aggregation Highlights 1H21

Broker Numbers
(#)



Settlements
($b)



Loan Book
($b)

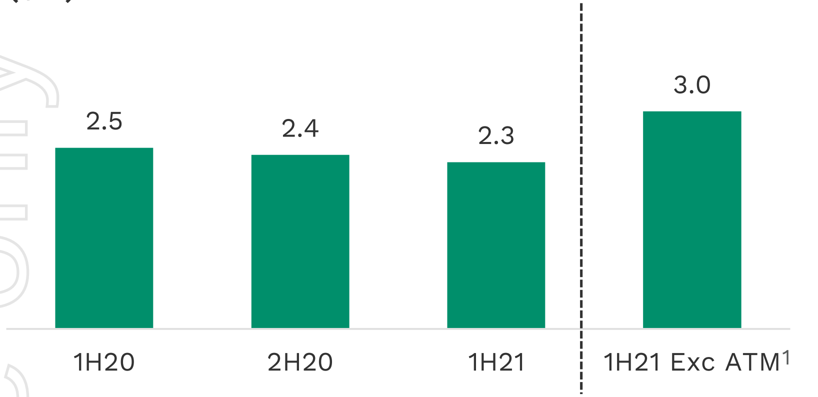
- Continued settlement, book and broker growth
- Proprietary "Infynity" platform a successful driver of broker recruitment
- Services store introduced enabling brokers to better run their business

FY2021 Half Year Results

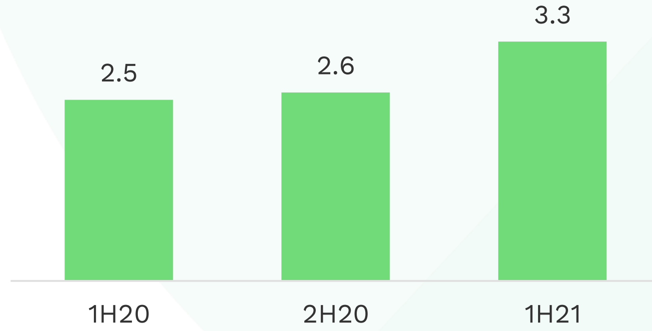
Andrew Kitchen
Chief Financial Officer

Financial Performance

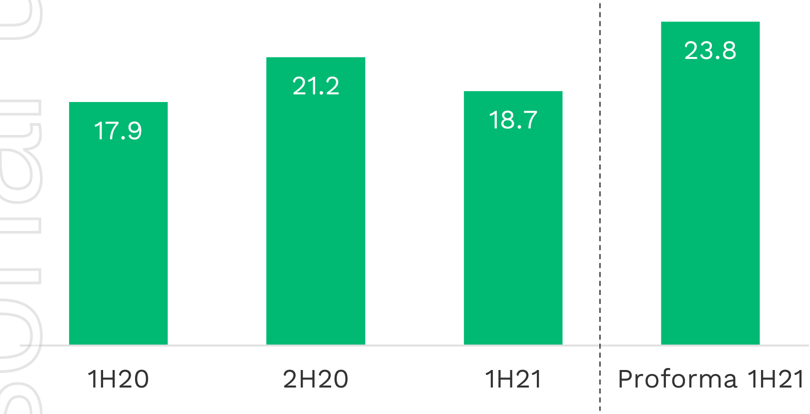
Underlying NPAT ($m)



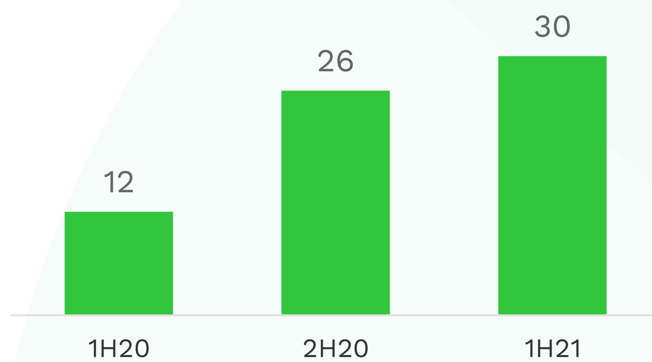
Net Interest Income ($m)



CAR RATIO (LEVEL 2) %[2]

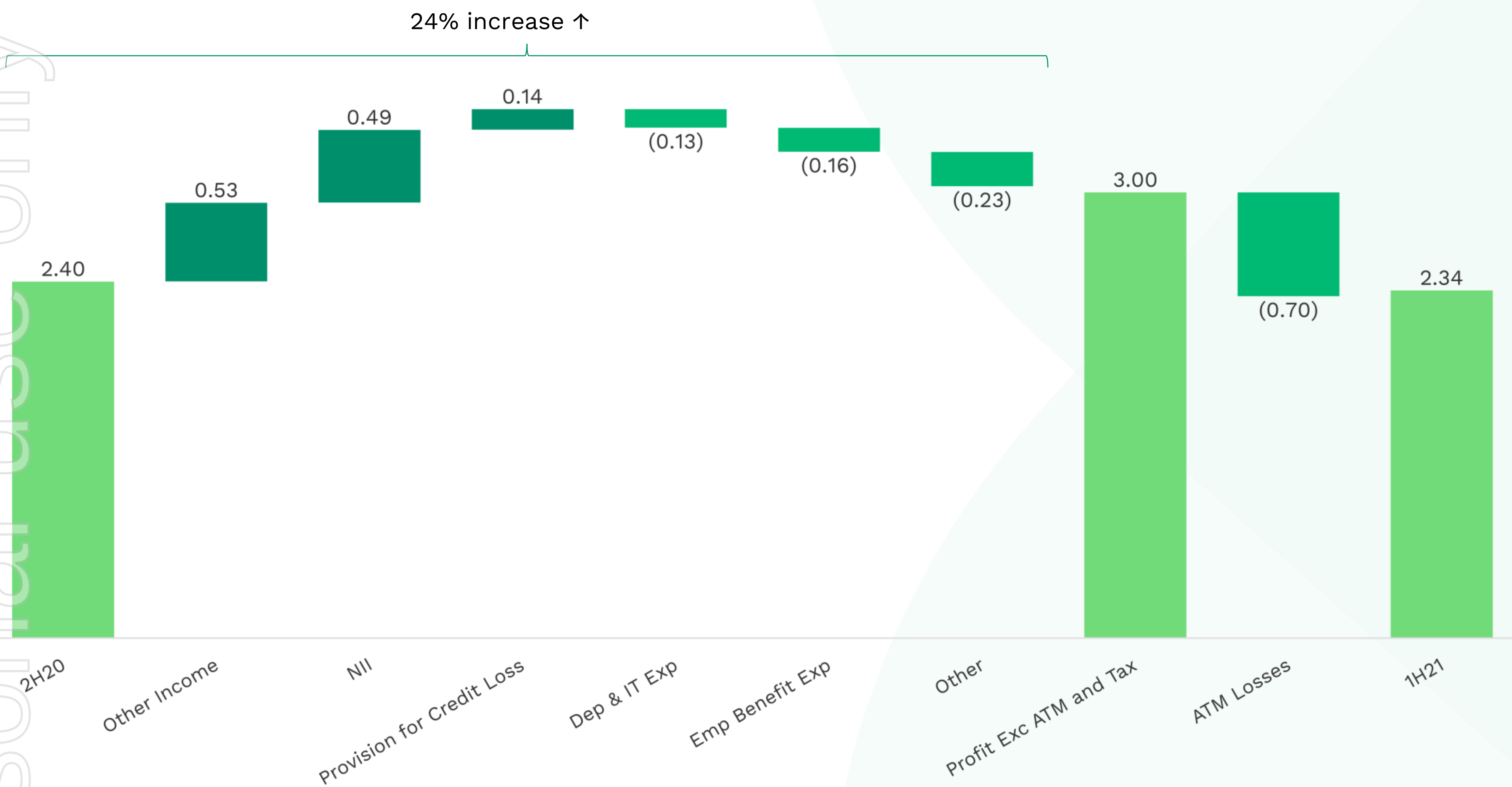


Credit Provisions[3] (bps)



1.ATM Bailment one-off write off
2.Pro-Forma includes impact of Tier 2 Hybrid Capital Issuance
3.IEL = Internal Expected Loss, long run loss rate as a % of GLA

Financial Performance (cont.)
Underlying NPAT ($m)



Group Financial Snapshot

Solid result in a challenging environment

	1H21	Change[1]
Group Underlying NPAT excl. ATM ($000's)	2,969	↑ 23.7%
Group Underlying NPAT ($000's)	2,338	↓ 2.5%
Cost to Income Ratio (Exc. ECL)	79%	↓ 0.3%
Statutory NPAT ($000's)	2,176	↓ 6.4%
Bank Loan Spot Book Size ($000's)	306	↑ 7.4%
NIM (Average)	163bps	↑ 23bps
Capital Adequacy Ratio	18.7%	↓ 2.6%
MLH (Spot)	25.8%	↓ 0.7%
Expected Credit Loss (ECL)	30bps	↑ 4bps

1. Change from previous half

Segment Performance

Aggregation and Bank

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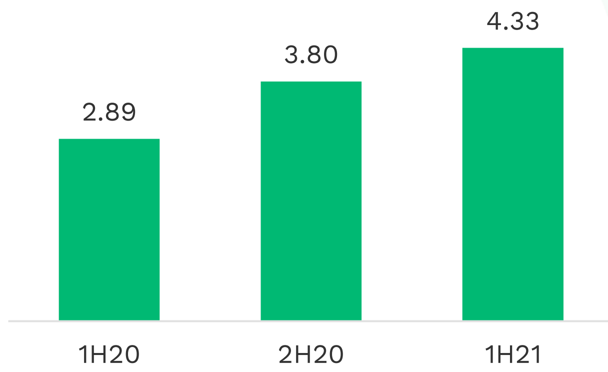
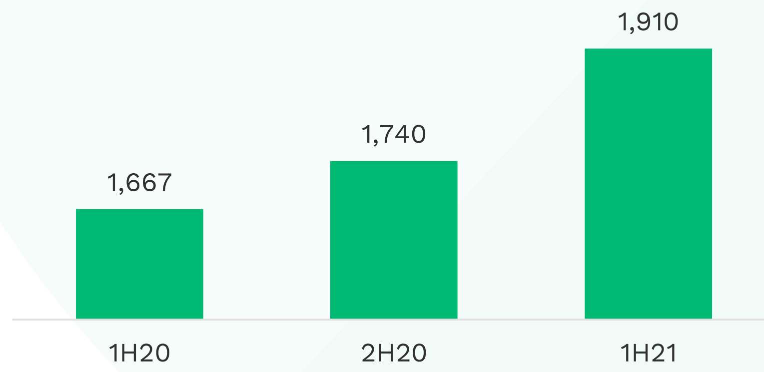
NPAT* ($m)



Broker Numbers (#)



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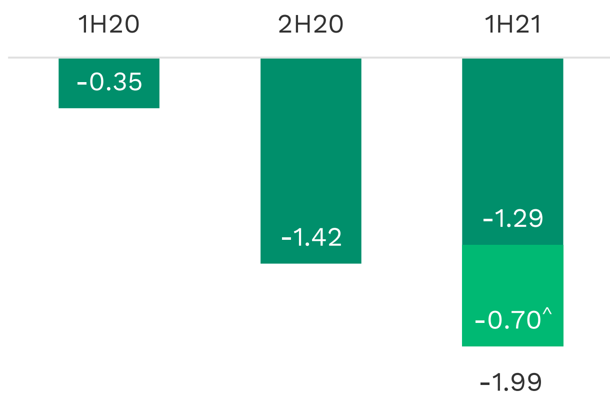
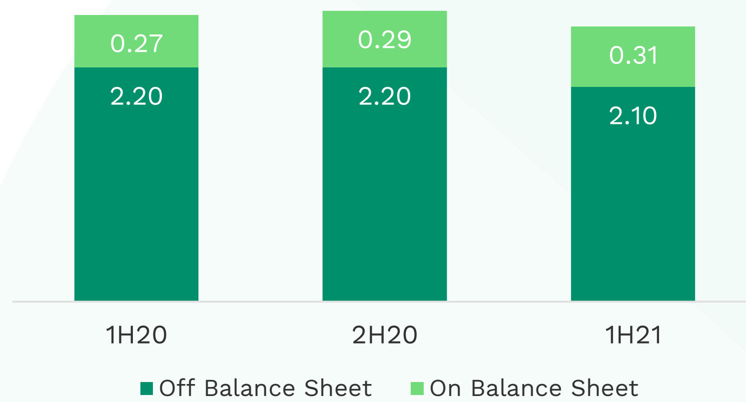
NPAT ($m)



Loan Book ($b)

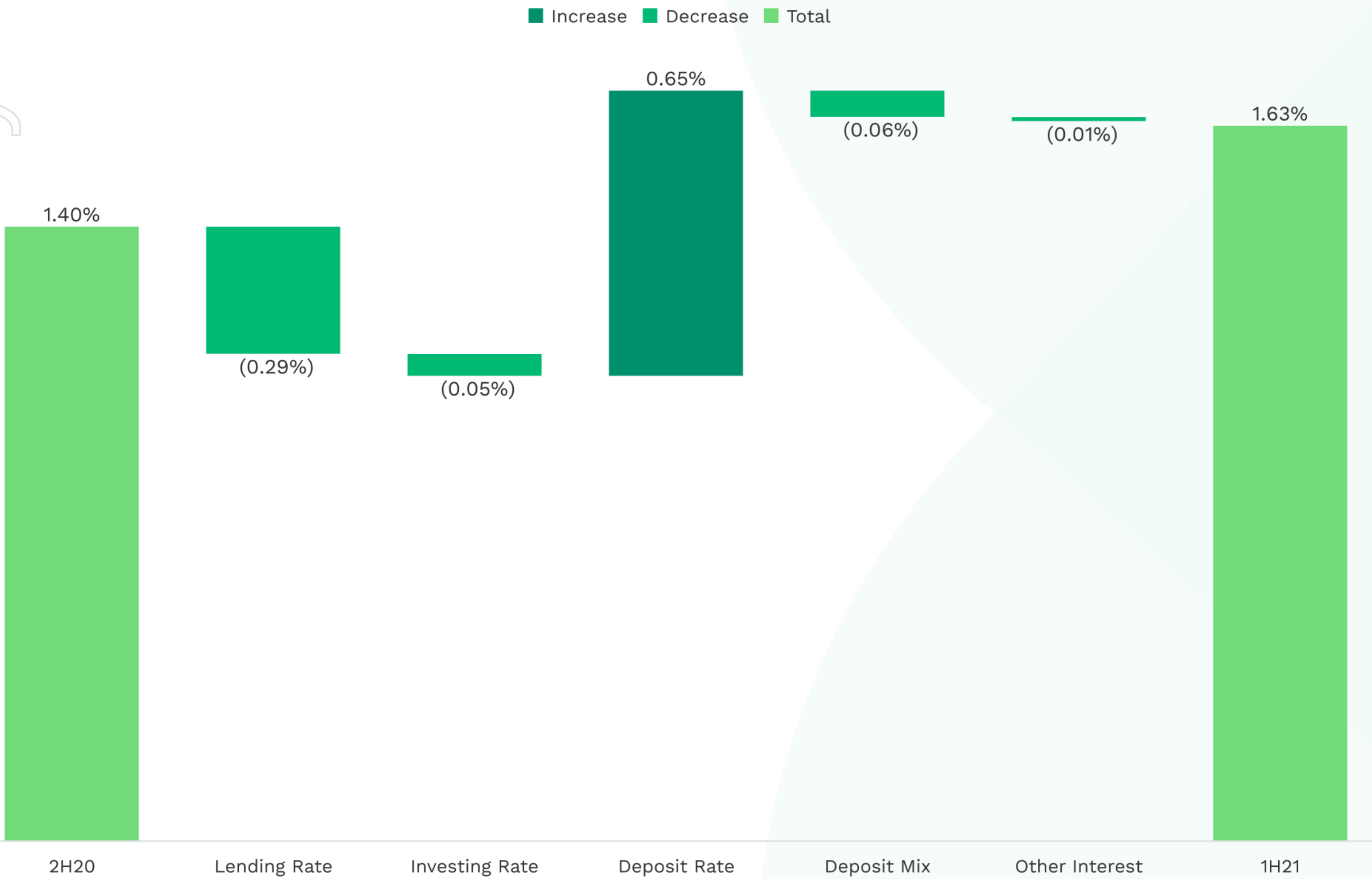


^loss from ATM and tax

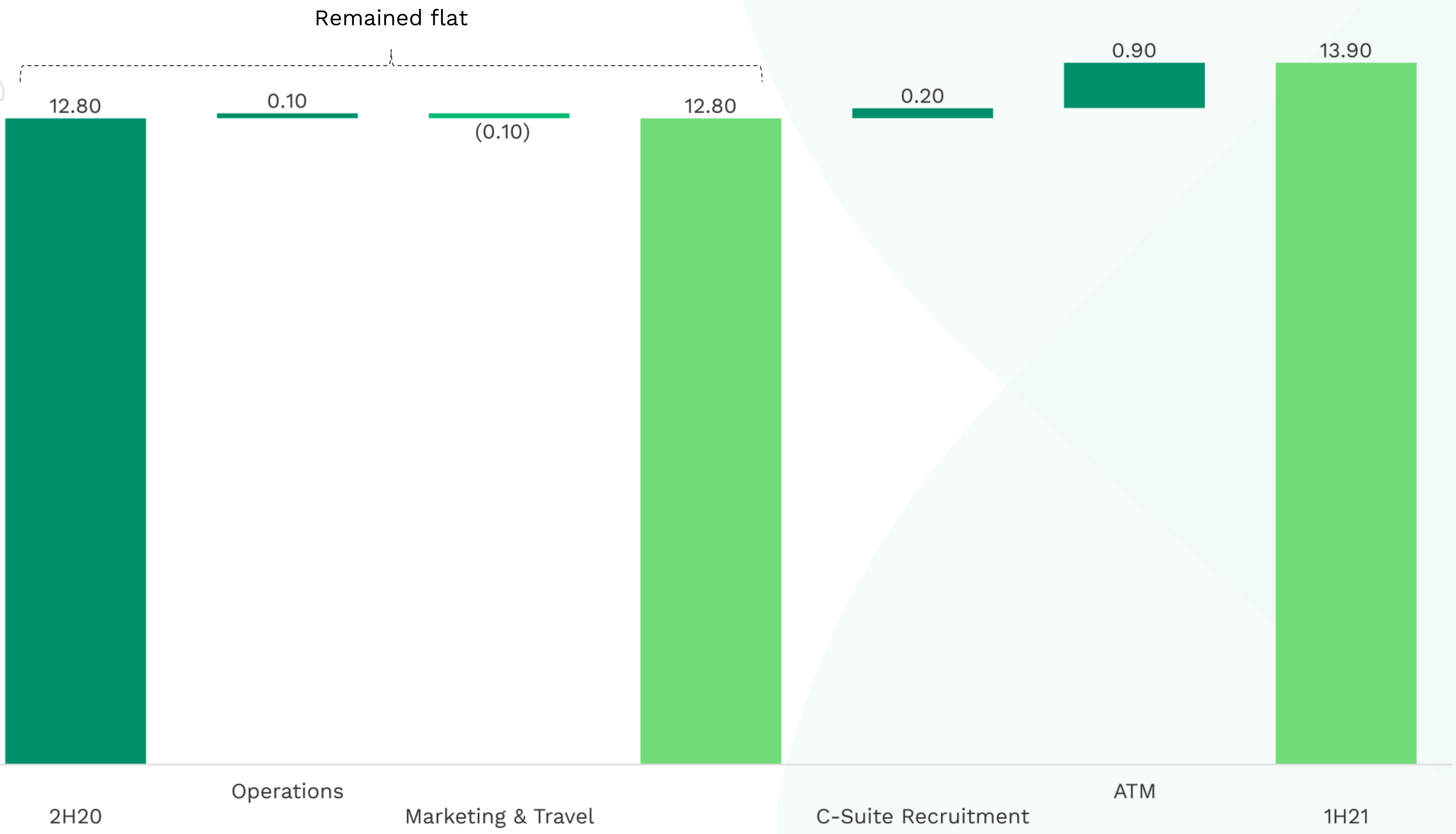
* Underlying NPAT

Net Interest Margin

Solid improvement in 1H21

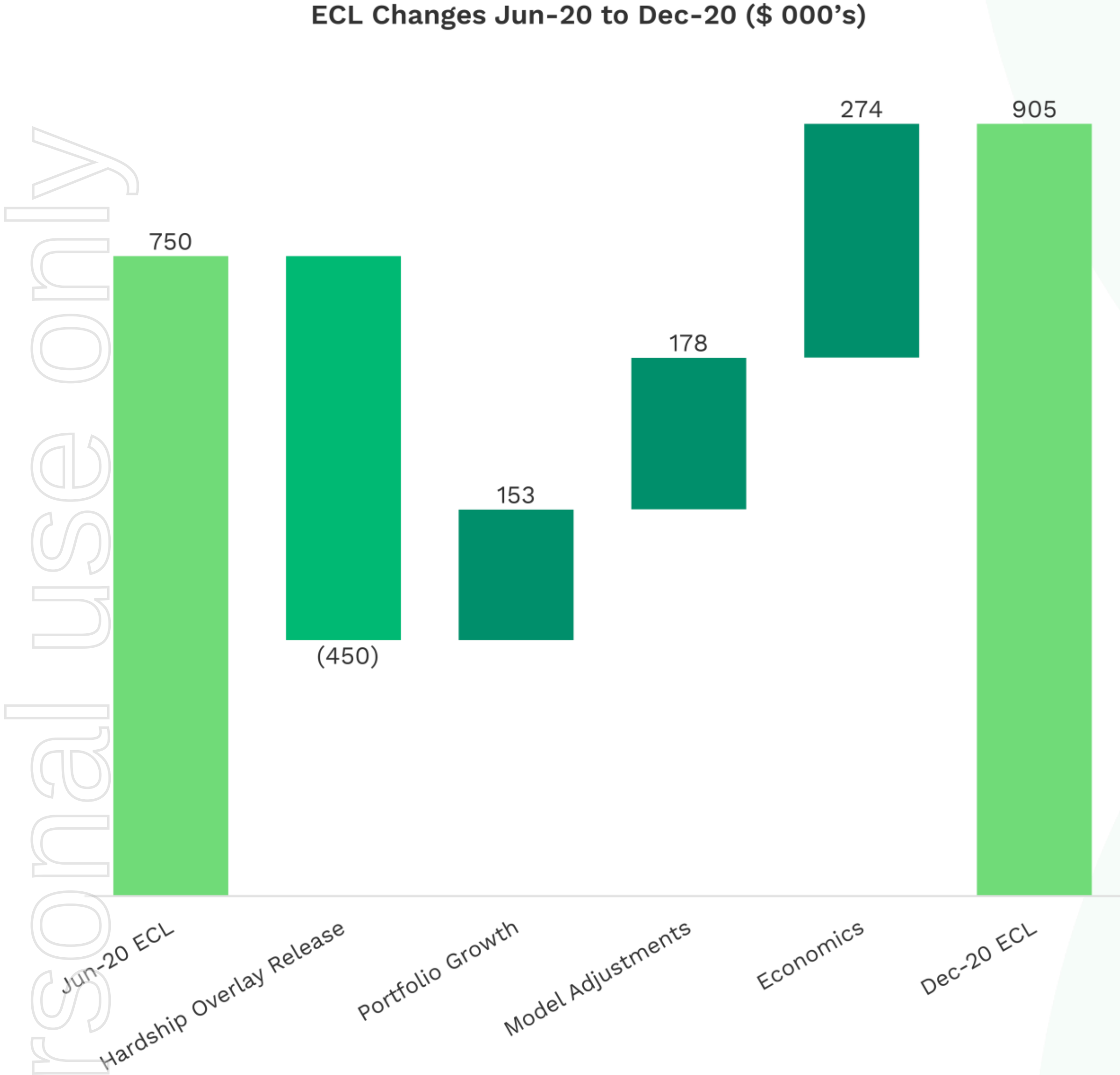


Expenses ($m)

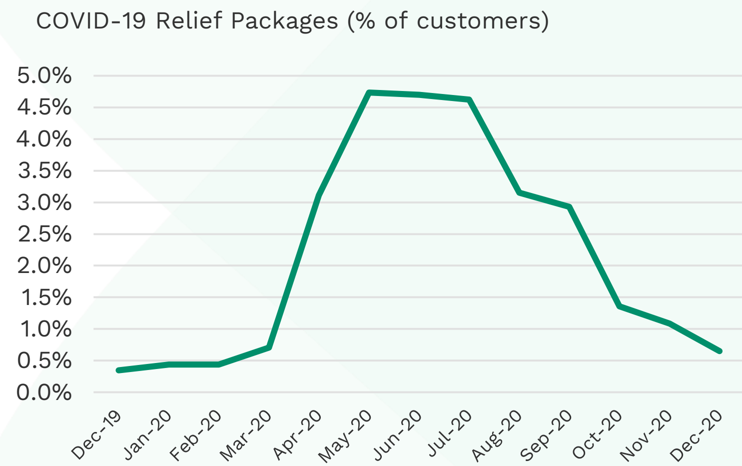


Remained flat
12.80
0.10
(0.10)
12.80
0.20
0.90
13.90
2H20
Operations
Marketing & Travel
C-Suite Recruitment
ATM
1H21

Expected Credit Loss Provisions



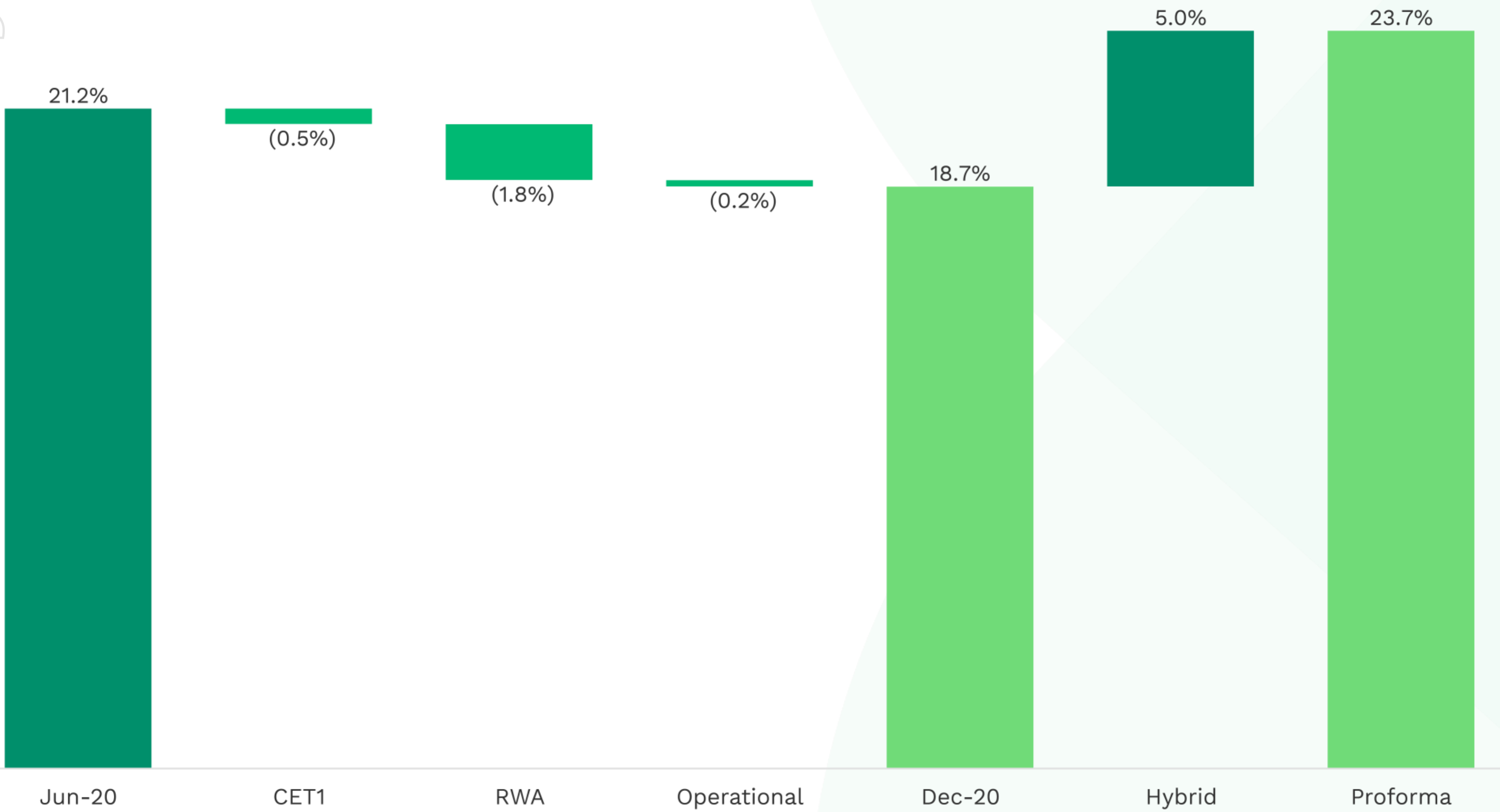
	1H20	2H20	1H21
Estimated Credit losses (bps)	**12**	**26**	**30**
GDP growth (%)	2.2	-6.4	-3.8^
Unemployment (%)	5.1	7.4	6.6
Residential property prices ($ 000's)	558	554	574



^Sep-20 Quarter End

Capital

Capital Adequacy Ratio (CAR)



1H21 Highlights & Outlook

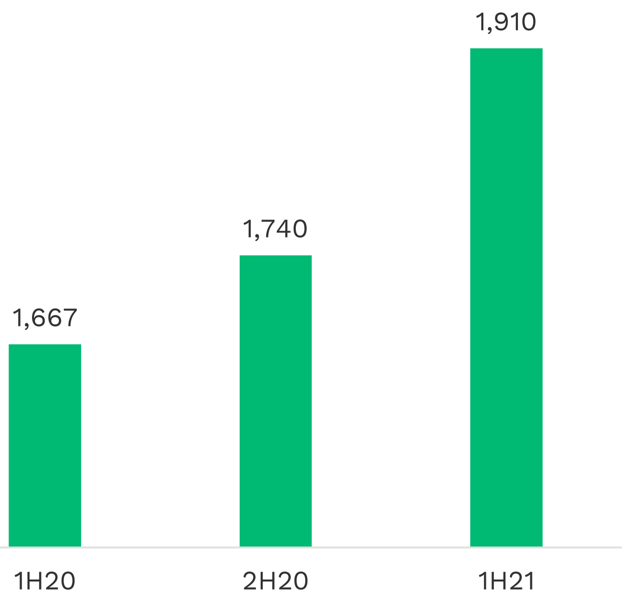
Aggregation Highlights

Continued growth

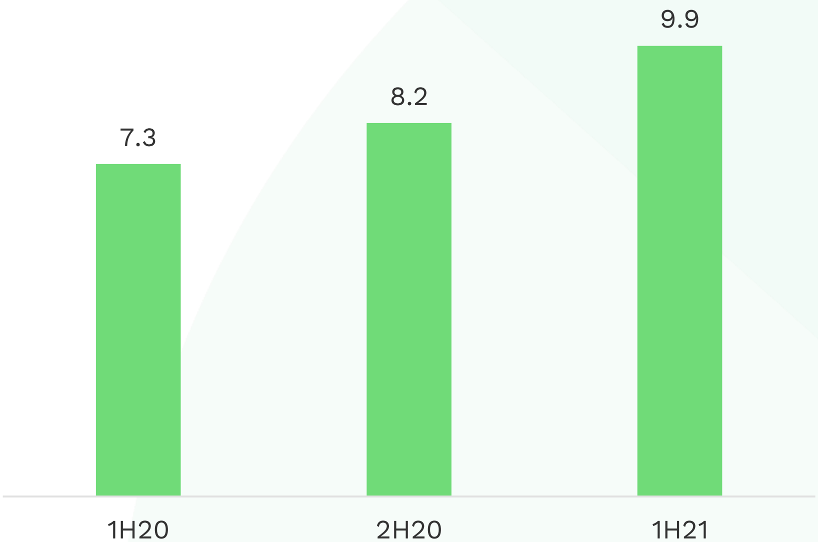
Finsure to continue to drive profitable growth via broker acquisition and adjacencies

- Core businesses in sync with key market trends
- Market disruption providing tailwinds
- Profitable growth to continue via broker growth and additional fee revenue
- Continue to evolve market leading technology to underpin value prop and scale

Total Broker Recruitment (#)



Settlements ($b)



Proprietary Technology Platform

Key to Finsure's Success

Finsure's proprietary Customer Relationship Management (CRM) system 'Infynity' utilises the latest cloud based technology to give our brokers market leading business tools.

Finsure continues to build new features to maintain technology leadership.

During 1H21 the following enhancements to Infynity were made;

- ✓ Launch of eLearning Platform with live streaming and webcasts to help educate our brokers remotely
- ✓ Introduced a Services Store within the application which provides brokers with access to 3rd party applications, greatly increasing the services and applications available to brokers to run their business
- ✓ Provide real time reports on lender performance.
- ✓ Redesigned the customer experience for brokers to provide industry leading turn around times to improve customer outcomes.
- ✓ Customer serviceability assessment across entire lender panel in real time – also providing a view of maximum borrowing capacity (which can vary substantially by lender).
- ✓ A comprehensive broker and lender reporting suite
- ✓ Advanced dashboard enables broker to track entire business performance

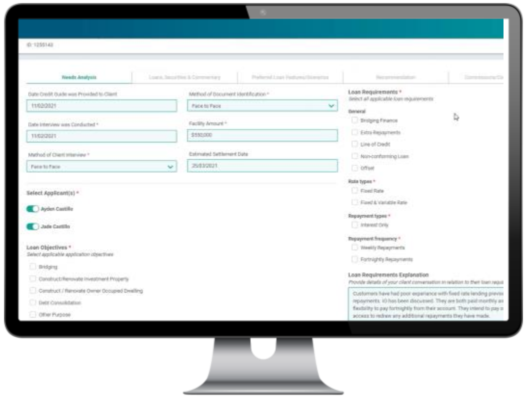
Platform allows customers to complete full application online, save & return later and provides tracking status 24/7

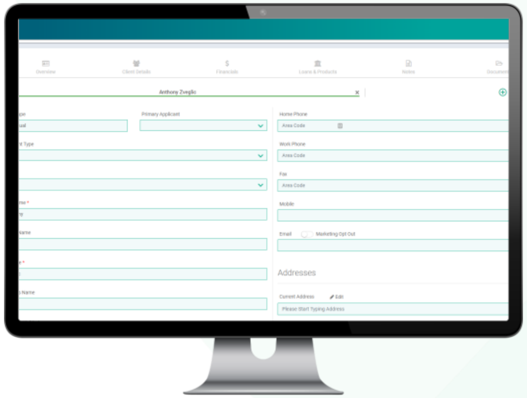
Finsure are confident Infynity is the industry benchmark for aggregator CRMs and will remain so for the foreseeable future

Proprietary Technology Platform

Finsure has replaced the offline home loan application process with technology

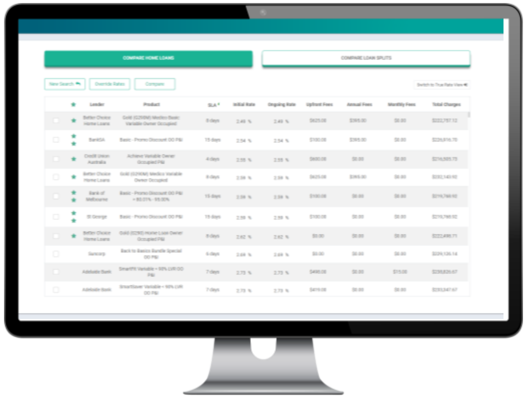
Dynamic questions allow for **accurate and detailed identification of borrower requirements** and goals

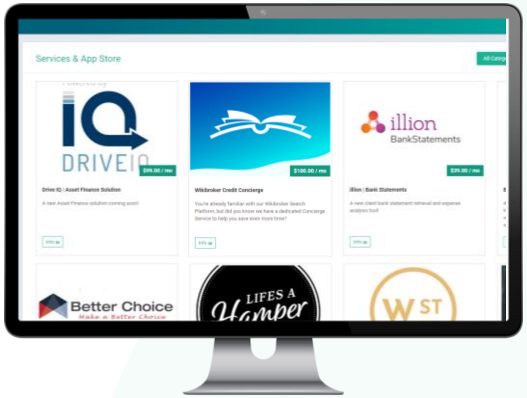




Advanced workflow allows brokers to **manage customer needs with minimal effort**

Instant product matches from a panel of over 4,500 bank & lender products to suit individual borrower needs





Technology platform allows product cross selling, **increasing additional revenue** for brokers and Finsure

Infynity connects to over 40 lenders allowing brokers to submit client applications.

Our ‘Infynity Services Store’ gives brokers access to 3rd party applications, and allows Finsure to earn additional revenue.

Over 8,000 loan lodgements to lenders per month

Proprietary Technology Platform

Infynity is a complete origination platform with proprietary architecture and sophisticated integrations

Distribution

National network of **1,900+ loan writers**

✓ Intuitive UX to assist users who aren't tech savvy

CRM Platform

INFYNITY

- Serviceability Calculator
- Automated Compliance Benchmarking
- In-built Marketing Campaign Tools
- Realtime Analytics & Reporting
- Centralised Data Repository
- Intelligent API

✓ Proprietary architecture for serviceability engine and product management system.

✓ Secure and modern data storage with intelligent API for external integrations

✓ Sophisticated sales and marketing tools available to all users

✓ Market-leading compliance dashboard displaying real-time insights for all loan writers

Integrated Lender Partners*

AMP bank, ANZ, Commonwealth Bank, nab, Westpac, Better Choice (Make a Better Choice), ING, La Trobe financial, MACQUARIE, st.george, bankSA, Bank of Melbourne

Service Partners

illion, Smart Select, CoreLogic, EQUIFAX

✓ Mapped integration to NextGen's ApplyOnline® delivering direct access to Lender systems

✓ Property insights, credit information, bank statements, and utility bill comparison tools are just some of the integrations into Infynity.

*over 40 lenders on panel

Bank Highlights & Outlook

Balance sheet growth and margin transformation

Balance sheet growth
has recommenced

Revenue transformation
has commenced

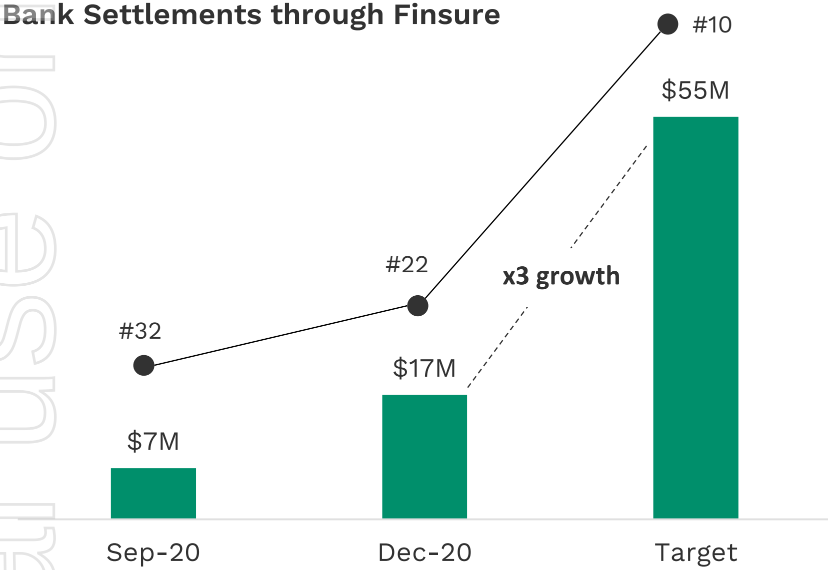
Deposit generation
capability in place

Bank Highlights & Outlook

Group and broader distribution in place supporting lending growth

Group Target: Become a Top 10 lender on the Finsure Panel

Bank Settlements through Finsure



Growing with Finsure

- Leverage 1,900+ loan writers
- Develop white label partnerships
- Proactive product and policy development based on latest data insights

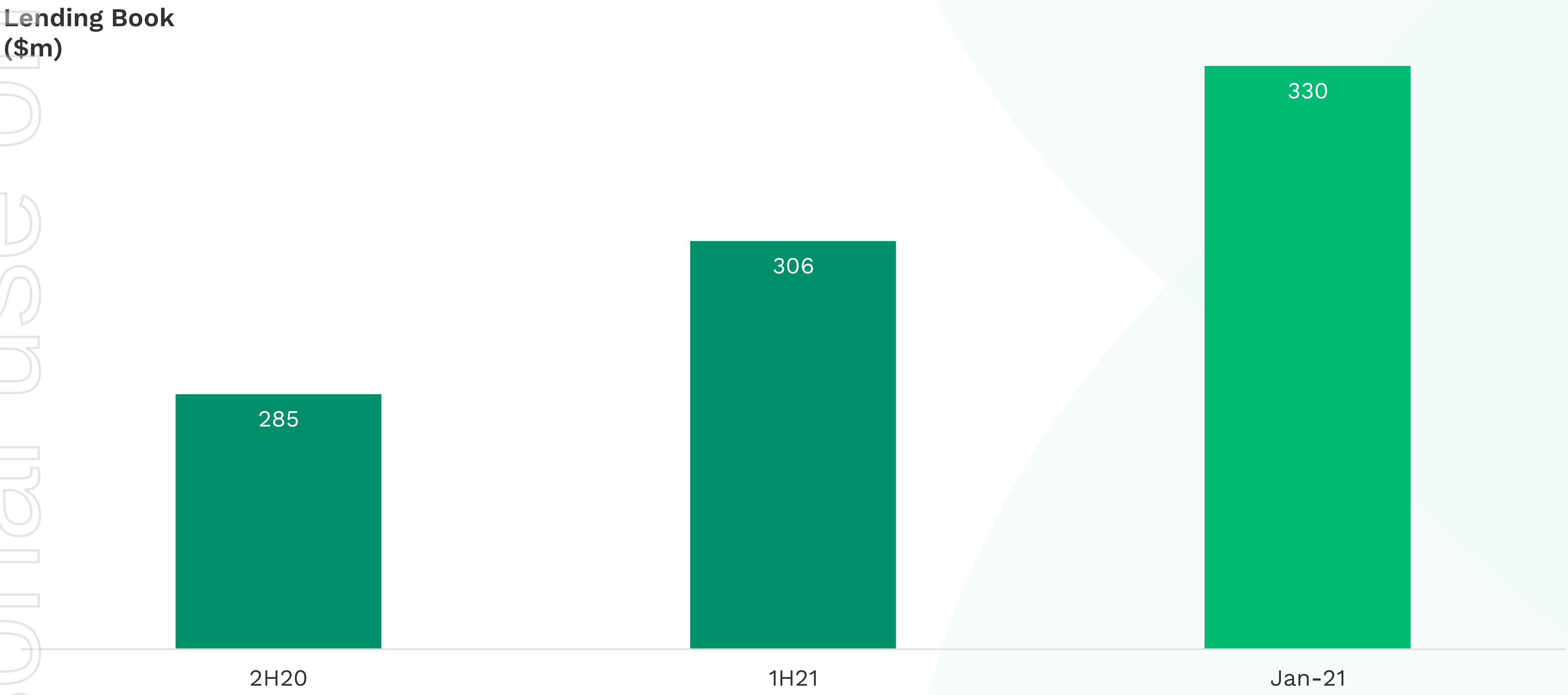
Broader distribution target: double volumes from other aggregation groups

- Broker experience enhancements
- New National Sales & Partnerships Manager
- New aggregator partners
- 4,000+ loan writers

Bank Highlights & Outlook

Increased on balance sheet settlements driving NIM

$29m settled on balance sheet in January, **driving balance sheet growth of 8% in a single month**

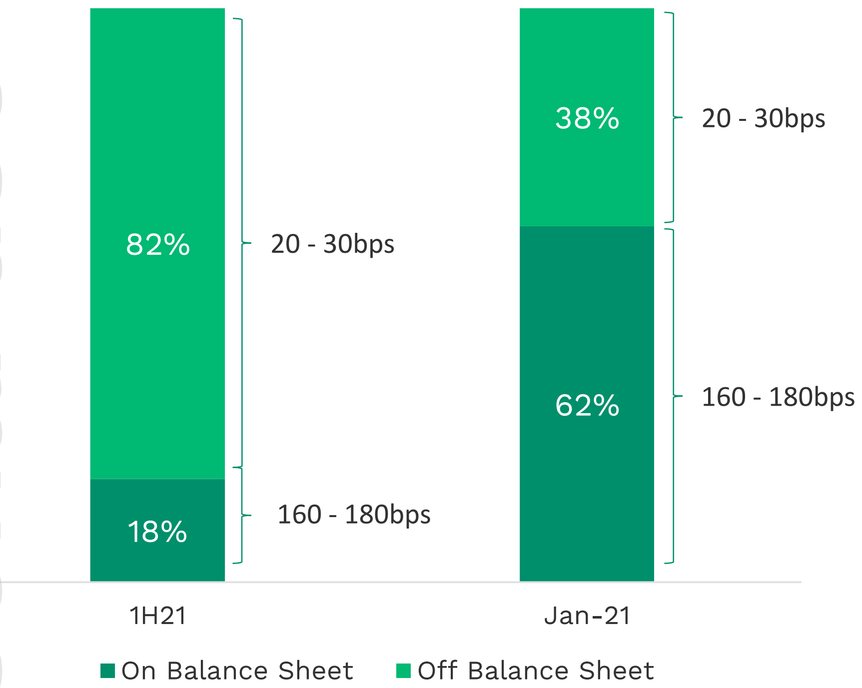


Bank Highlights & Outlook

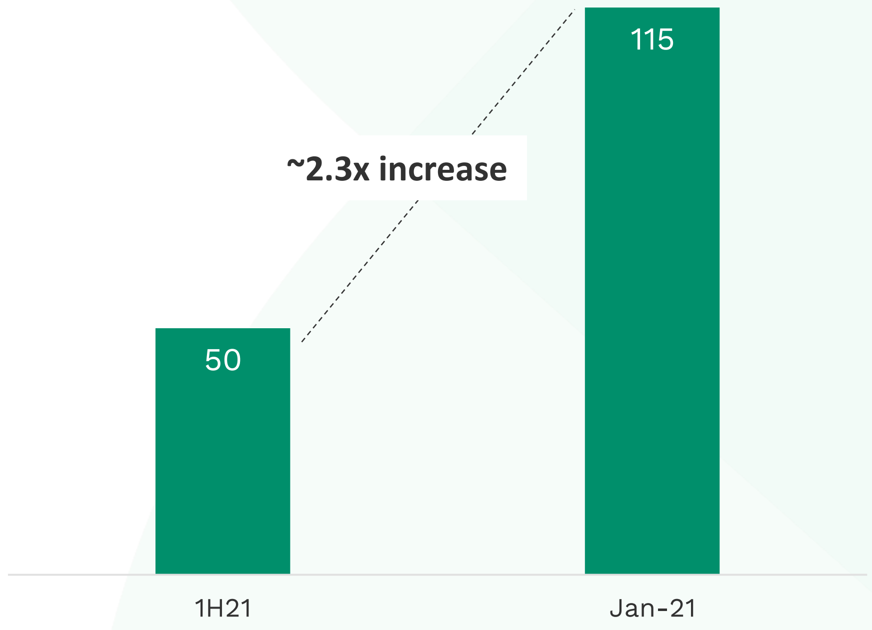
Margin transformation

Margin transformation has commenced through on balance sheet lending, including recent hybrid which increases capacity to lend by approximately 50%

Settlement Mix



Weighted Lending Return (bps)

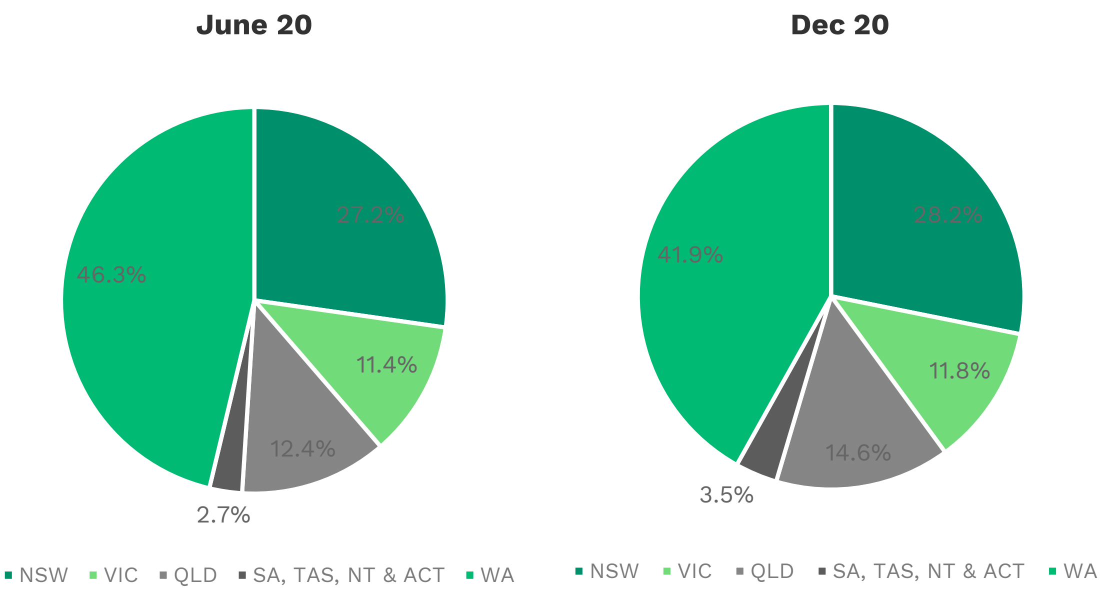


Bank Highlights & Outlook

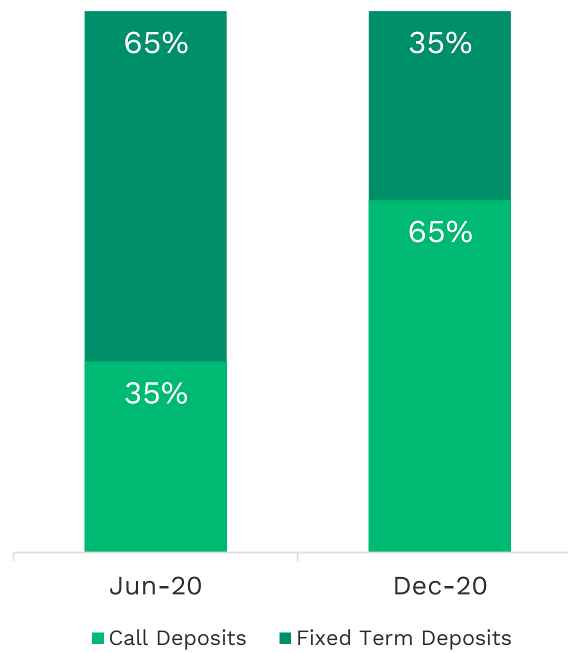
More diverse portfolio

Building a more diversified and lower risk portfolio

Geographical Lending Mix (%)



Transaction Deposit Mix (%)



Outlook Summary

Foundation for success.

Delivering profitable growth	Group underlying NPAT (exc ATM write-off) grew 24% to $3M for 1H21 Aggregation profits continue to grow Bank's balance sheet growth and margin transformation will deliver profitability in the near term
Fast growing fintech aggregator	Settlements and Book growth has been in excess of **20%**
Demonstrated lending capability	Business currently has a lending book of ~$2.4B January 2021 settlements $47m
Margin transformation commenced	On balance sheet lending grew by 8% in January Continue to use other funding programs to generate fee income and for capital management
Low cost deposits	65% deposit base in low cost transaction accounts
Sound balance sheet	Capital Adequacy Ratio of **23.7%** (proforma) providing further capacity for balance sheet growth. Minimum liquidity holdings (MLH) ratio **25.8% (Dec-20 Spot)** and successful navigation through COVID.

Appendix

Appendix Reconciliation

	1H21	2H20	1H20
Statutory Net Profit After Tax ($'000s)	**2,176**	**2,325**	**2,999**
Revenue adjustments			
• Non-recurring gain on sale of bonds	-	(270)	(882)
• ATM insurance receivable recognised	-	(2,917)	-
• Disposal of AAA	(57)	-	-
Expense adjustments			
• IFRS fair value adjustments from Finsure acquisition	289	286	194
• Restructuring and transition costs	-	-	36
• Operational loss	-	3,007	-
Tax effect of adjustments	(70)	(32)	196
Underlying Net Profit after Tax ($'000s) (Management-reported results)	**2,338**	**2,399**	**2,543**

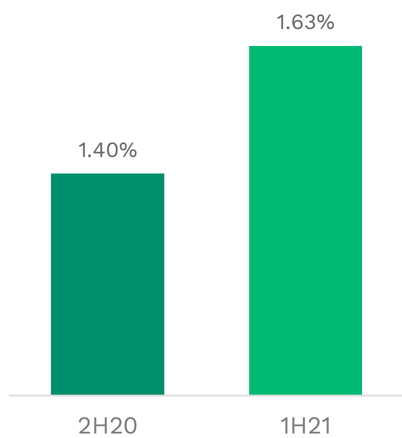
- **1H21**
  - **Net Other Income:** sale of AAA by Finsure earlier in the year.
  - **Tax Effect:** tax effected position of above (to match back to Statutory)
- **1H20**
  - **Net Other Income:** sale of bonds at a profit.
  - **Acquired Intangible Assets:** Amortisation of broker agreements and software acquired on merger.
  - **Restructuring and Transition costs:** relates to merger costs.
  - **Tax Effect:** tax effected position of above (to match back to Statutory)
- **2H20**
  - **Net Other Income:** Recognition of ATM issue receivables $2.9m and Bond sales $270k. The ATM issue results in no 2H20 net NPAT impact, due to recognition of insurance claim receivables and ATM loss.
  - **Tax Effect:** tax effected position of above (to match back to Statutory)

Profit & Loss Statement

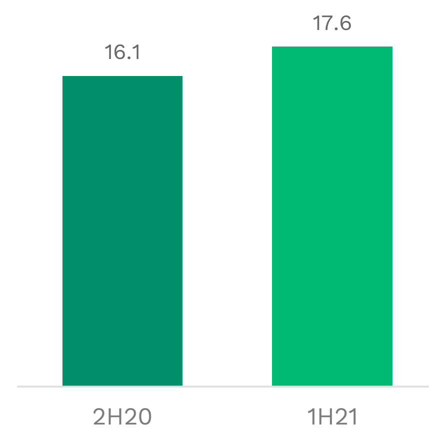
- Operating leverage delivers a 1H21 underlying NPAT of $2.3m representing -2.5% HoH decline, $0.9m of which was driven from ATM loss.
- Net interest margin (NIM%) increased slightly 2bpts, actual interest spread continue to increase HoH as we reprice expensive TDs.
- Operating expenses impacted by ATM loss $0.9m. After adjusting for abnormal items expenses were broadly flat

Underlying Group ($m)	Aggregation	Wholesale	Bank	Eli	1H FY2021[1]	2H 2020[1]	$ Var.	% Var.
Gross Revenue								
Commission Income/(Exp.)	150.3	7.7	-	(0.6)	157.5	149.6	7.9	5%
Interest Income/(Exp.)	0.0	0.0	4.9	0.1	5.0	5.1	(0.1)	-2%
Fees & Other Income	5.8	0.4	0.5	-	6.6	6.7	(0.0)	-1%
TotalGross Revenue	**156.2**	**8.1**	**5.3**	**(0.5)**	**169.1**	**161.4**	**7.8**	**5%**
Net Revenue								
Commission Income/(Exp.)	7.2	2.9	-	(0.5)	9.6	8.7	0.9	11%
Interest Income/(Exp.)	0.0	(0.0)	3.2	0.1	3.3	2.6	0.7	27%
Fees & Other Income	4.7	(0.0)	(0.1)	0.1	4.7	4.8	(0.2)	-4%
Total Net Revenue	**11.9**	**2.9**	**3.1**	**(0.3)**	**17.6**	**16.1**	**1.5**	**9%**
Operating Expenses								
Operating Expenses	5.6	3.5	4.9	-	13.9	12.8		
Loan Loss Charges	-	-	0.2	-	0.2	0.4		
Total Expenses	**5.6**	**3.5**	**5.1**	**-**	**14.1**	**13.2**	**0.9**	**7%**
Profit Before Tax	**6.4**	**(0.6)**	**(2.0)**	**(0.3)**	**3.5**	**2.9**	**0.6**	**19%**
Tax Expense	2.0	(0.1)	(0.6)	(0.1)	1.2	0.5		
Net Profit After Tax	**4.4**	**(0.4)**	**(1.4)**	**(0.2)**	**2.3**	**2.4**	**(0.1)**	**-3%**

NIM Trend (%)



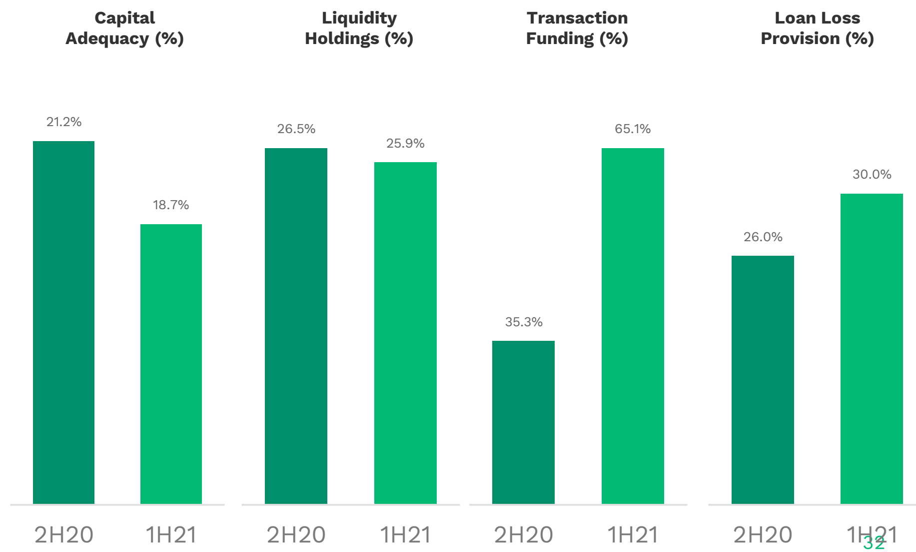
Revenue ($m)



Balance Sheet

- Portfolio growth in Finsure resulting in growth in NPV Asset and Other Assets HoH.
- Growth in on balance sheet loans (up +7.8%) and deposit book (up +13.2%) despite a challenging 1H21
- Lower cost transaction account deposit mix improved to 65%
- $132m of cash and liquid holdings
- Net Assets up +2.2% from profits
- Credit quality remains strong with underlying (excl. COVID-19 provisions) portfolio loan loss provision stable at 30bps

Group ($m)	1H21	2H20	$ Var.	% Var.
Assets				
Cash & Equivalents	132.4	93.1	39.4	42.3%
NPV Asset	443.3	387.2	56.1	14.5%
Loans & Advances	305.6	283.6	22.0	7.8%
Other Assets	74.5	75.4	(0.9)	(1.2%)
Total Assets	**955.9**	**839.3**	**116.6**	**13.9%**
Liabilities				
Deposits	391.3	345.8	45.5	13.2%
Other Liabilities	449.2	380.6	68.6	18.0%
Total Liabilities	**840.5**	**726.4**	**114.1**	**15.7%**
Equity				
Contributed Equity	104.1	103.4	0.7	0.7%
General & Other Reserves	1.0	1.3	(0.3)	(24.9%)
Retained Earnings	10.3	8.1	2.2	26.8%
Total Equity	**115.4**	**112.9**	**2.5**	**2.2%**



Experienced and Refreshed Management Team

Brett Morgan
BNK/BC CEO

John Kolenda
Finsure CEO

Andrew Kitchen
Chief Financial Officer

Amber Smith
Chief Operating Officer

Allan Savins
GM – Banking & Wholesale

Simon Bednar
GM Aggregation

David Maher
Head of Marketing

Dara Wettner
Chief Risk Officer

Malcolm Cowell
Company Secretary

Talia Swersky
Head of Internal Audit