

BNK BANKING CORP LTD

FACT SHEET

MAY 2024

I A M
INCOME ASSET
MANAGEMENT

BNK Banking Corp Ltd

Issuer Outline

BNK Banking Corporation Limited provides banking services. The Bank offers saving accounts, account checking, consumer and business loans, credit, and debit cards, online and mobile banking, bill payment, and other financial services. BNK Banking serves customers in Australia.

| | |
|--------------------|---------------------------|
| Sector: | Financial |
| Sub-Sector: | Diversified Finan Serv |
| Country: | AU |
| Ownership: | Public |

Key Financials (AUD m)

| LTM (30 June) | 06/2023 | 6/2022 |
|--|----------|----------|
| Net interest income | 18.81 | 12.92 |
| Non-interest income | 5.66 | 0.81 |
| Provision for loan losses | 1.11 | 0.84 |
| Net income | (3.94) | 59.79 |
| Total loans | 1,360.49 | 991.93 |
| Total assets | 1,679.79 | 1,435.28 |
| Customer deposits | 1,252.26 | 964.59 |
| Total equity | 128.18 | 190.38 |
| Net interest margin (%) | 1.60 | 1.69 |
| Efficiency ratio (%) | 121.46 | 237.31 |
| Loans to deposits ratio (%) | 108.64 | 102.83 |
| Tangible common equity ratio (TCE) (%) | 7.22 | 12.81 |
| Tangible equity / RWA (%) | 23.06 | 46.20 |

Issuer Credit Rating & Outlook

| Agency | Rating | Outlook |
|---------|--------|---------|
| S&P | - | - |
| Moody's | - | - |
| Fitch | - | - |

IAM Credit View

IAM has good conviction in the credit profile of BNK Bank. FY23 was a transformation year for the bank as it shifted into higher margin lending. Q424 cash profit was ahead of original FY24 timeline. Net interest income (NII) growth drove positive jaws of 9.7% on a YoY basis.

The bank is targeting a net interest margin (NIM) of 2% longer-term, from its current 1.57%. There are plenty of opportunities to improve NIM via; ongoing fixed rate re-pricing in the mortgage and deposit markets; continued expansion into higher SME market; and increasing market share in competitive deposit space. The higher margin lending portfolio grew 15x to A\$195m.

Total on balance sheet loan book of A\$1.3b increased 37% YoY. Total deposits increased 30% YoY to A\$1.3b. The bank's capital adequacy ratio remains solid at 22.84%.

BNK Bank aims to be a market leader SME bank. The strategic focus for FY24 remains:

1. Increase loan book to over A\$3b over the medium term
2. Increase NIM to 2% over the medium term
3. Focus on cost of income ratio <60% over the medium term

The bank distributed proceeds from the A\$60m Finsure sale to shareholders as a A\$20m capital return and strengthened its shareholder base by welcoming non-bank lender Firstmac as a substantial shareholder.

Being APRA regulated and ASX-listed lends itself to a higher level of scrutiny / an oversight. This is positive from a credit perspective and makes it a less riskier investment.

We see excellent relative value in the BNKAUS Float 09/30/31s.

- On a relative value basis, the BNKAUS Float 09/30/31 look quite attractive versus the AUD HY comps available. The bonds are trading at a margin of +467, or yield of 8.96% (mid quote).
- Compared to regional banks with subordinated bonds out there, the BNKAUS Float 09/30/31s price with around a +200bps discount based on a September 2026 call (2.25 years to call).

The subordinated notes will pay interest on a quarterly basis at a floating rate of 90 day BBSW + 3.95% p.a. At the current 90 day BBSW of 4.37%, the interest payment would equal 8.32% p.a. "

Strengths of BNK Bank

- Consistent growth across lending and deposits. Average loan size increased from A\$340k to A\$382k YoY, while maintaining strong LVR mix. The majority of loans are on variable rate. Fixed rate loans make up 24% of the BNK bank portfolio as at 30 June 2023. Fixed rate lending has reduced to below 8% of new loans in FY23. The maximum fixed rate term remains 3 years. The fixed rate portfolio will reduce by 57% over FY24 and a further 40% over FY25, remaining a retention tool in the product mix.
- A network and relationship within its banking channels that can continue to grow its technology, brand, automation and innovation. High quality customers:
 - Slight increase in offset account balances from A\$87m to A\$89m over FY23
 - Approx. half of all loan accounts (49%) are ahead in their payments
 - Mortgagee possession rates remained at zero
 - No credit write-offs recorded for FY23
- Risk-managed growth and diversification across the BNK- lending portfolio. Strong growth in higher margin residential loans as a result of the Goldman Sachs specialist warehouse portfolio acquisition. Maintained strong LVR mix at settlement with the expansion into higher margin loans. Retained interest rate servicing buffer of 3.0% in FY23.

Weaknesses of BNK Bank

- Modest increase in investor lending supports margin expansion but also heightens risks.
- Profitability turnaround story still coming to fruition. If the turnaround fails to occur, the capital needs of the bank will not be met which will require equity raising(s). The profitability may be impeded by the economic headwinds.
- Credit quality and loss protection. Current credit charges are low, but there is a risk that portfolio hardship increases and BNK arrears rise higher than PRIME SPIN.

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Summary Bond Details

| ISIN | Issue Amount | Ranking | Coupon | Coupon Frequency | First Call ¹ | Maturity Date | Issue Rating (S&P/Moody's/Fitch) |
|--------------|--------------|--------------|-----------------------------|------------------|-------------------------|-------------------|----------------------------------|
| AU3FN0063269 | AUD14m | Subordinated | 3mBBSW + 3.95% ¹ | Quarterly | 30 September 2026 | 30 September 2031 | - / - / - |
| AU3FN0058053 | AUD8.8m | Subordinated | 3mBBSW + 5.40% ¹ | Quarterly | 1 February 2026 | 1 February 2031 | - / - / - |

¹Noteholder may convert into shares if issuer does not redeem at first call date for subordinated instruments.

Subordinated Structure

| | |
|--------------------------------|---|
| Interest Deferral/Cancellation | Interest is deferrable and cumulative if, before the payment of interest, the issuer is not solvent or would not be solvent after payment. |
| Equity Dividend Stopper | Interest payments are protected by an equity dividend stopper. |
| Final Maturity Date | The notes have a final maturity date. |
| Optional Redemption Date | The notes may be redeemed at the first call date and then any subsequent interest payment date. Should the notes not be redeemed at the first call date, noteholders have the option to request conversion into shares. |

For more information call 1300 784 132 or email adviserservices@incomeam.com

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