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

BNK Banking Corporation Limited – Half Year Report (Appendix 4D) for the half year ended 31 December 2020

The Directors of BNK Banking Corporation Limited ("the Company")and its controlled entities (the "Group") are pleased to announce the results of the Group for the half year ended 31 December 2020 as follows:

Results for announcement to the market

Extracted from the Financial Statements for the half year ended	Change	$'000s 31 December 2020	$'000s 31 December 2019
Revenue from operations	9.9%	169,249	153,993
Profit/(loss) after tax attributable to members	(27.4%)	2,176	2,999

No dividend was paid or declared by the Company in the period and up to the date of this report. No dividends were paid or declared by the Company in respect of the previous year.

	$ 31 December 2020	$ 31 December 2019
Net Tangible Assets per share	0.69	0.67

On 19 August 2020, the Group disposed of its 51% interest in the share capital of Australian Asset Aggregation Pty Ltd.

The remainder of the information requiring disclosure to comply with Listing Rule 4.2.A3 is contained in the attached copy of the Financial Statements and comments on performance of the Group included in the Investor Presentation dated 26 February 2021.

Further information regarding BNK Banking Corporation Limited and its business activities can be obtained by visiting the Company's website at www.bnk.com.au.

Yours faithfully

Malcolm Cowell
Company Secretary
Phone 0499 997 928

BNK Banking Corporation Limited
ACN 087 651 849

Interim Financial Report
For the six months ended 31 December 2020

Corporate Information

ACN: 087 651 849

Directors

Mr. Jon Sutton	(Chairman and Non-executive Director)
Mr. Don Koch	(Deputy Chairman and Non-executive Director)
Mr. Peter Hall	(Non-executive Director)
Mr. Jon Denovan	(Non-executive Director)
Mr. John Kolenda	(Executive Director)

Company Secretary
Mr. Malcolm Cowell

The registered office and principal place of business of the Company is:
Level 14, 191 St George's Terrace
Perth WA 6000
Phone: +(61) 8 9438 8888

Other Locations:
Sydney Office
Level 24, 52 Martin Place
Sydney NSW 2000

Melbourne Office
Unit 205 / 480 St Kida Road
Melbourne VIC 3004

Gold Coast Office
Level 5, 50 Cavill Avenue
Surfers Paradise QLD 4217

Share Registry:
Advanced Share Registry
110 Stirling Hwy
Nedlands WA 6009
Tel: +(61) 8 9389 8033
Fax: +(61) 8 9262 3723

Exchange Listing
Australian Securities Exchange Limited
Exchange Plaza
2 The Esplanade
Perth, Western Australia 6000
ASX Code: BBC

Auditors:
KPMG
300 Barangaroo Avenue
Sydney NSW 2000

Website Address:
www.bnk.com.au

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DIRECTORS' REPORT

The Directors present their report on the consolidated entity comprising BNK Banking Corporation Limited ("BNK" or the "Company") and the entities it controlled ("the Group") as at or during the half-year ended 31 December 2020.

DIRECTORS

The names of the Company's Directors in office during the half-year and until the date of this report are set out below. Directors were in office for the entire period unless otherwise stated.

Mr. Jon Sutton	Chairman and Non-executive Director
Mr. Don Koch	Deputy Chairman and Non-executive Director (Interim Chief executive Officer until 12 October 2020)
Mr. Jon Denovan	Non-executive Director
Mr. Peter Hall	Non-executive Director
Mr. John Kolenda	Executive Director

PRINCIPAL ACTIVITIES

The principal activities of the Group were the provision of retail banking, wholesale mortgage management and mortgage broker aggregation services.

RECONCILIATION BETWEEN THE STATUTORY RESULTS (IFRS) AND THE MANAGEMENT REPORTED (NON IFRS) RESULTS

The discussion of operating performance in the operating and financial review section of this report is presented on a statutory basis under IFRS with certain adjustments to reflect a management reported basis of the underlying performance of the business, unless otherwise stated. Management reported results are non-IFRS financial information and are not directly comparable to the statutory results presented in other parts of this financial report. A reconciliation between the two is provided in this section and the guidance provided in Australian Securities and Investments Commission Regulatory Guide 230 *'Disclosing non IFRS financial information'* ('RG 230') has been followed when presenting the management reported results. Non-IFRS financial information has not been audited by the external auditor, but has been sourced from the financial reports.

The reconciliation between the statutory results (IFRS) and the management/underlying reported (non-IFRS) results is presented below:

	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**

The adjustments summarised above reflect the current year impact of the amortisation of fair value adjustments to intangible assets arising from the acquisition of Finsure in 2018 and the disposal of an immaterial subsidiary.

DIRECTORS' REPORT (cont'd)

REVIEW AND RESULTS OF OPERATIONS

The Group has recorded an underlying net profit after tax of $2.34 million for the half-year ended 31 December 2020, a decrease of $0.2 million (8% decrease YoY) on the comparative period and a $0.06m decrease (2.6% decrease) on the second half of FY20. After allowing an impairment loss of $0.9 million recognised on the ATM business, underlying net profit after tax would have been $3.0m, a 16.7% increase on the comparative period.

Finsure has continued to generate loan originations through its platform of funders reflecting the continued productivity growth of accredited brokers. Finsure now has 1,910 accredited brokers, an increase of 14% on the comparative period. In addition, settlements totaled $9.9 billion for the half-year, representing a 35% increase on the comparative period.

As noted in the Group's 30 June 2020 Annual Report, BNK deliberately moderated the origination of on-balance sheet lending through early to mid calendar-year 2020 (CY20). The on-balance sheet lending pipeline built in the last two months of CY20 with $41m of settlements in the half. Net Interest Income (NII) grew by $0.94m compared to the comparative period. The growth was primarily due to lower cost of funds with the reduction in wholesale funding costs, the growth in low cost call accounts and the drawdown of $13.7 million from the RBA Term Finance Facility.

The Better Choice business achieved settlements of $192.8 million (a 10.8% decrease on the comparative period) reflecting the pivot toward on balance sheet lending and the impact of COVID-19 upon approval times at several of the division's external funders.

At 31 December 2020, the Group maintained a capital adequacy ratio of 18.66%. Subsequent to balance date, the Company has completed a placement of $8.75 million Tier 2 Loan Capital issue. The loan capital is a liability in these accounts, is recognised as capital by the Australian Prudential Regulation Authority (APRA) and on a pro forma basis improves the capital adequacy ratio to 23.7% underpinning ongoing lending growth.

The Group continued its investment in people through filling key executive roles during the half-year including Chief Executive Officer, Banking and Wholesale, Chief Financial Officer, Chief Operating Officer and Chief Risk Officer. John Kolenda assumed the role of Chief Executive Officer, Finsure.

Aggregation

The Aggregation division generated net profit after tax of $4.4 million for the half-year, a 59.5% increase on the comparative period.

The Finsure Aggregation division provides a key platform, linking brokers with a range of lenders. Combined with leading edge technology and front line compliance services, Finsure is a leader in providing innovative services to the mortgage broking industry.

During the interim period, the number of brokers utilising the platform increased to 1,910 (30 June 2020: 1,740). Settlements of $9.9 billion represented a 35% increase on the comparative period, with the commission loan book reaching $50.2 billion.

The growth in settlements was reflected in the NPV revenue increasing by a net amount of $3.9 million ($3.46 million for the comparative period) during the half.

Finsure continued to roll out further enhancements and development of its proprietary Infynity software platform, providing enhanced capability and efficiency to brokers. The in-house development team continue to release new features including the successful deployment of its compliance framework to accommodate the new regulations around Best Interests Duty.

Banking

The Banking division recognised a loss after tax of $1.4 million for the half-year, impacted by the ATM bailment loss, recruitment costs for key management roles and prudent credit loss provisions.

DIRECTORS' REPORT (cont'd)

On balance sheet loans for the Banking division grew by 7.8% from $283.5 million at 30 June 2020 to $305.6 million at 31 December 2020. Credit quality remains sound with loans more than 90 days in arrears equating to less than 1% of total on balance sheet loans. Customers subject to COVID-19 repayment deferrals also less than 1% of total on balance sheet loans.

During the period, the Banking division recorded a Net Interest Margin (NIM) of 1.63%, compared to the prior comparative period of 1.68%. Effective liquidity management and growth in lower cost at call deposits enabled the Banking division to maintain a sound NIM in a period of strong competition, reductions in the official cash rate and declines in market returns from the Bank's liquidity portfolio.

A key objective of the Banking division is to reduce the overall cost of funding through diversifying and improving its funding mix. During the period the average cost of funds was 89bps, a reduction from 183bps for the prior comparative period. The improvement was primarily through reductions in wholesale funding and term deposit costs, as well as substantial growth in low cost call account deposits. The Bank also drew down its entitlement under the RBA's Term Finance Facility (TFF) of $13.8 million providing 3 year funding at a weighted average cost of 18 bps.

During the period, the Banking division increased its geographical diversification, away from its original home of Western Australia. At 31 December 2020, 42% of the on balance sheet loan book was domiciled in Western Australia compared to 56% in the prior comparative period. The change reflects the impact of Better Choice's national distribution capabilities for the Group as it markets loans to in excess of 6,000 mortgage brokers Australia-wide.

As announced to the ASX on 27 October 2020, the Company concluded its claim with its insurers in relation to operational losses arising from the liquidation of entities the Company previously held ATM bailment arrangements with. At 30 June 2020 the Company recognised an insurance receivable for $2.9 million. During the half, the Company's insurer indemnified the Bank for $2.0m in full satisfaction of the claim. An impairment charge of $0.9 million has been recognised for the discontinuation of this business.

Wholesale

The Wholesale division recognised a loss after tax of $0.4 million for the half-year attributed to negative NPV.

The division continues to maintain multiple funding relationships and distributes Better Choice branded products through more than and 6,000 accredited brokers.

The interaction of Better Choice with the Banking division continues and is the driver in the increased flow of on balance-sheet loans for the Group. Whilst Wholesale's loan book declined marginally to approximately $2.25 billion, primarily driven by the impact of funding partner responses to COVID where they stopped lending and/or delayed approvals, the greater margin capture by funding an increased proportion of Wholesale's loans within the Banking division during the period, contributed to growth in the Group's on-balance sheet loan book and overall profitability.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Company during the financial half-year.

EVENTS SUBSEQUENT TO BALANCE DATE

On 1 February 2021, the Company completed an issuance of 10-year floating rate subordinated notes to sophisticated and wholesale investors, raising $8,750,000 (before costs). The notes are eligible to be classified as Tier 2 capital and will pay interest to holders quarterly at a floating rate of 90-day BBSW plus a margin of 5.40%.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' Report.

DIRECTORS' REPORT (cont'd)

ROUNDING

These consolidated financial statements are presented in Australian dollars which is the Company's functional currency. The Group is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and in accordance with that instrument, amounts in the consolidated financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

Jon Sutton
Chairman and Non-executive Director
Dated this 26th day of February 2021

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of BNK Banking Corporation Limited

I declare that, to the best of my knowledge and belief, in relation to the review of BNK Banking Corporation Limited for the half-year ended 31 December 2020 ended there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Nicholas Buchanan

Partner

Sydney

26 February 2021

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

CONTINUING OPERATIONS	**Note**		
In thousands of AUD		**31 Dec 2020**	**31 Dec 2019**
		$	**$**
Interest revenue from banking activities	6	5,211	5,387
Interest expense on banking activities		(1,923)	(3,042)
Net interest income		3,288	2,345
Commission income	5	158,553	139,940
Commission expense	5	(148,347)	(130,102)
Net commission income/(expense)		10,206	9,838
Other income	7	5,485	8,666
Total net revenue		**18,979**	**20,849**
Operating expenses	8(i)	(14,556)	(13,705)
Impairment of bailment cash		-	(2,925)
Impairment of insurance receivable and ATMs	8(ii)	(901)	-
Impairment of loans and advances	13	(264)	(79)
Profit before income tax from continuing operations		**3,258**	**4,140**
Income tax (expense)/benefit	9	(1,082)	(1,141)
Profit for the period		**2,176**	**2,999**
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss		-	-
Total comprehensive income for the period		**2,176**	**2,999**
Basic earnings per share (cents)	20	2.29	3.64
Diluted earnings per share (cents)	20	2.27	3.58

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

In thousands of AUD	Note	31 Dec 2020	30 Jun 2020
		$	$
Assets			
Cash and cash equivalents	10	50,365	18,122
Trade and other receivables	11	22,211	25,423
Due from other financial institutions		24,828	33,335
Loans and advances	13	305,600	283,561
Contract Asset		443,265	387,197
Other financial assets	12	56,308	38,231
Property, plant and equipment		3,207	3,808
Goodwill and other intangible assets		50,084	49,610
Total Assets		**955,868**	**839,287**
Liabilities			
Deposits		391,292	345,791
Other funding liabilities	14	13,760	-
Trade and other payables	15	24,006	22,682
Contract Liability		395,188	342,954
Provisions		1,484	1,308
Deferred tax liabilities		14,749	13,686
Total Liabilities		**840,479**	**726,421**
Net Assets		**115,389**	**112,866**
Equity Attributable to Equity Holders			
Contributed equity			
Issued capital, net of raising costs	16	104,194	103,516
Reserves		901	1,232
Retained earnings		10,294	8,118
Total Equity		**115,389**	**112,866**

The accompanying notes form part of these financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

In thousands of AUD

Attributable to equity holders	**Issued Capital**	**Other Contributed Equity**	**Equity Raising Costs**	**Treasury Share Reserve**	**Property, Plant and Equipment Revaluation Reserve**	**Financial Assets Revaluation Reserve**	**General Reserve for Credit Losses**	**Share-based Payments Reserve**	**Retained Earnings**	**Total Equity**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance at 1 July 2019	**99,188**	**-**	**(2,620)**	**-**	**97**	**(92)**	**446**	**623**	**2,794**	**100,436**
Profit for the period	-	-	-	-	-	-	-	-	2,999	2,999
Other comprehensive income	-	-	-	-	-		-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,999**	**2,999**
Transactions with owners of the Company										
Cost of share-based payments	-	-	-	-	-	-	-	213	-	213
Issue of share capital	62	-	(2)	-	-	-	-	(62)	-	(2)
Acquisition of treasury shares	-	-	-	(102)	-	-	-	-	-	(102)
Balance at 31 December 2019	**99,250**	**-**	**(2,622)**	**(102)**	**97**	**(92)**	**446**	**774**	**5,793**	**103,544**
Balance at 1 July 2020	**106,270**	**-**	**(2,754)**	**(103)**	**-**	**(140)**	**446**	**1,029**	**8,118**	**112,866**
Profit for the period	-	-	-	-	-	-	-	-	2,176	2,176
Other comprehensive income	-	-	-	-	-	-	-	-		
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,176**	**2,176**
Transactions with owners of the Company										
Cost of share-based payments	-	-	-	-	-	-	-	358	-	358
Issue of share capital	689	-	(11)	-	-	-	-	(689)	-	(11)
Balance at 31 December 2020	**106,959**	**-**	**(2,765)**	**(103)**	**-**	**(140)**	**446**	**698**	**10,294**	**115,389**

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

	Note	31 Dec 2020 $	31 Dec 2019 $
In thousands of AUD			
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		5,212	5,387
Fees and commissions received		107,905	84,302
Interest and other costs of finance paid		(1,923)	(3,042)
Other income received		2	902
Proceeds from insurance claim		2,034	-
Payments to suppliers and employees		(109,597)	(84,829)
Net increase in loans, advances and other receivables		(22,207)	(50,724)
Net increase in deposits and other borrowings		45,500	19,704
Net (payments)/receipts for investments		(9,570)	28,930
Net cash from/(used in) operating activities		17,356	630
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		-	(8)
Payments for intangible assets		(1,161)	(1,881)
Net cash used in investing activities		(1,161)	(1,889)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		13,760	-
Payments for treasury shares		-	(102)
Payments for equity raising costs		(11)	(2)
Payments for lease liabilities		(624)	(586)
Net cash from/(used in) financing activities		13,125	(690)
Net increase/(decrease) in cash held		29,320	(1,949)
Cash and cash equivalents at beginning of the period		21,045	19,381
Cash and cash equivalents at the end of the period	10	50,365	17,432

The accompanying notes form part of these financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

BNK Banking Corporation Limited ("the Company") is a company incorporated and domiciled in Australia. These condensed consolidated interim financial statements ("interim financial statements") as at and for the six months ended 31 December 2020 comprise the Company and its subsidiaries (together referred to as "the Group"). The principal activities of the company are the provision of banking products and services, mortgage management and mortgage aggregation services.

2. BASIS OF PREPARATION

The interim financial statements for the six months ended 31 December 2020 have been prepared in accordance with Australian Accounting Standard AASB 134 *'Interim Financial Reporting'* and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *'Interim Financial Reporting'.*

The interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at 30 June 2020.

These consolidated financial statements are presented in Australian dollars which is the Company's functional currency. The Group is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and in accordance with that instrument, amounts in the consolidated financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

3. CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT JUDGEMENTS

The preparation of the financial report in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. In preparing this half-year financial report, the significant judgements made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those that applied to the annual financial report for the year ended 30 June 2020.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events.

Management believes the estimates used in preparing the financial report are reasonable. Actual results in the future may differ from those reported and therefore it is reasonably possible, on the basis of existing knowledge, that outcomes within the financial year that are different from our assumptions and estimates could require an adjustment to the carrying amounts of the assets and liabilities reported. This is particularly pertinent in the half-year ended 31 December 2020 where the impact of the COVID-19 pandemic has caused significant impact to the Australian (and global) economy with inherent uncertainty as to future economic conditions. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENT INFORMATION

AASB 8 requires operating segments to be identified on the basis of internal information provided to the chief decision maker, the Board of Directors, in relation to the business activities of the Group. The Group has determined it has three segments for which information is provided regularly to the Board of Directors. The following describes the operations of each of the Group's reportable segments:

Banking

The Group's banking business refers to the provision of banking products and services such as loans and deposits under the BNK and Goldfields Money brands. Loans are distributed through the Group's Wholesale division, via online applications and accredited brokers. The segment earns net interest income and service fees from providing a range of services to its retail and small business customers.

Wholesale mortgage management

The Wholesale mortgage management segment offers prime and commercial loans under the Better Choice Home Loans brand, funded by a range of third party wholesale funding providers (white label products) including BNK. The segment earns fees for services, largely in the form of upfront and trail commissions.

Aggregation

The Aggregation segment provides contracted administrative and infrastructure support to 1,910 (31 December 2019: 1,667) mortgage brokers, connecting them with a panel of approximately 60 lenders. The segment is branded as Finsure and Beagle Finance, and derives revenue in the form of fees for service, percentage splits, proprietary technology, compliance and sponsorship income. Fees include upfront commissions which are earned upon each loan settlement, and ongoing trail commissions. The Company collects the upfront and trail commission from Lenders and deducts all its fees/percentages before distributing through to its accredited brokers.

Segment results that are reported to the Board of Directors include items directly attributable to the activities of each segment, and those that can be allocated on a reasonable basis. Other/unallocated items are comprised mainly of other operating activities from which the Group earns revenues and/or incurs expenses that are not managed separately and include taxation expense, assets and liabilities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENT INFORMATION (CONT'D)

Half-year ended 31 December 2020

In thousands of AUD	Banking	Wholesale	Aggregation	Eliminations	Total
Continuing operations					
Revenue					
External customers	5,540	7,494	156,215	-	169,249
Inter-segment	(132)	617	-	(485)	-
Total segment revenue	**5,408**	**8,111**	**156,215**	**(485)**	**169,249**
Results					
Segment profit/(loss) before income tax	(1,992)	(575)	6,408	(583)	3,258
Income tax (expense)/benefit	586	142	(1,985)	175	(1,082)
Net profit/(loss) after tax	**(1,406)**	**(433)**	**4,423**	**(408)**	**2,176**
Assets and Liabilities					
Total segment assets	504,183	34,370	460,816	(43,501)	955,868
Total segment liabilities	405,290	19,697	411,998	3,493	840,479

Half-year ended 31 December 2019

In thousands of AUD	Banking	Wholesale	Aggregation	Eliminations	Total
Continuing operations					
Revenue					
External customers	6,670	6,763	137,635	-	151,068
Inter-segment	86	-	686	(772)	-
Total segment revenue	**6,756**	**6,763**	**138,321**	**(772)**	**151,068**
Results					
Segment profit/(loss) before income tax	111	4	4,025	-	4,140
Income tax (expense)/benefit	113	(1)	(1,253)	-	(1,141)
Net profit/(loss) after tax	**224**	**3**	**2,772**	**-**	**2,999**
Assets and Liabilities					
Total segment assets	402,018	31,855	326,392	(27,697)	732,568
Total segment liabilities	306,612	16,823	303,117	2,472	629,024

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands of AUD	31 Dec 2020 $	31 Dec 2019 $
5. COMMISSION INCOME AND EXPENSE		
Upfront commission income	58,726	44,610
Trail commission income	43,759	37,335
Net present value of future trail commission receivable	56,068	57,995
Total commission income	158,553	139,940
Upfront commission expense	56,711	42,534
Trail commission expense	39,402	32,706
Net present value of future trail commission payable	52,234	54,862
Total commission expense	148,347	130,102
6. INTEREST INCOME		
Loans and advances	4,952	4,851
Sub-lease finance lease	42	84
Deposits with other institutions	217	452
Total interest income	5,211	5,387
7. OTHER INCOME		
Service fees and residual income	1,131	768
Aggregation services fee income	3,326	2,997
Lending fees	335	366
Transaction fees	9	1
Sponsorship income	683	493
Cash convenience fee income	-	214
Gain on disposal of government bonds	-	888
Insurance recovery	-	2,925
Other	1	14
Total other income	5,485	8,666

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands of AUD	31 Dec 2020 $	31 Dec 2019 $
8. (I) OPERATING EXPENSES		
Depreciation and amortisation	1,250	1,112
Information technology	1,329	702
Banking services delivery	212	212
Employee benefits	8,897	7,910
Professional services	665	555
Marketing	378	1,205
Occupancy	192	274
Other administration expenses	1,633	1,735
Total operating expenses	14,556	13,705

(II) IMPAIRMENT OF INSURANCE RECEIVABLE AND ATMs

As set out in note 4.1.1 of the Company's Annual Financial Report for the year ended 30 June 2020, the Group recognised a receivable in relation to an insurance recovery anticipated arising from a claim following the alleged theft of ATM bailment cash for the amount of $2,923,000. During the period, the Company's insurer agreed to indemnify the Company for the sum of $2,060,000 minus the applicable deductible pursuant to the Company's Financial Institutions Bond Policy. The remaining balance of $863,000 has been recognised as an impairment expense. The Company continues to consider its position in relation to the potential recovery of amounts from other third parties.

Following the cessation of this line of business, the Company has also written down the carrying value of ATM assets held.

9. INCOME TAX

The major components of income tax benefit recognised are:		
Current income tax expense	-	273
Deferred income tax expense	1,082	868
Income tax expense	1,082	1,141

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands of AUD	**31 Dec 2020 $**	**30 June 2020 $**

10. CASH AND CASH EQUIVALENTS

Reconciliation of cash:

Cash at the end of the period as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	31 Dec 2020	30 June 2020
Cash at bank and on hand	50,365	21,045
Less provision for non-recovery of bailment cash	-	(2,923)
	50,365	18,122

11. TRADE AND OTHER RECEIVABLES

	31 Dec 2020	30 June 2020
Insurance receivable	-	2,898
Sub-lease finance lease receivable	962	1,121
Accrued commission income	17,040	16,551
Trade and other receivables	4,209	4,936
Less provision for impairment	-	(83)
	22,211	25,423

12. OTHER FINANCIAL ASSETS

	31 Dec 2020	30 June 2020
Investments in debt securities (measured at amortised cost)	56,073	37,996
Shares in listed corporations (measured at fair value through OCI)	93	93
Shares in unlisted corporations (measured at fair value through OCI)	142	142
	56,308	38,231

Investments in debt securities totalling $13,760,000 have been provided as collateral to the RBA in respect of the Company's Term Finance Facility – refer note 14.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	31 Dec 2020 $	30 June 2020 $
In thousands of AUD		

13. LOANS AND ADVANCES

(a) Classification

	31 Dec 2020	30 June 2020
Residential loans	287,026	263,446
Personal loans	695	854
Overdrafts	335	469
Term loans	17,632	18,796
Total gross loans and advances	305,688	283,565
Add: Unamortised broker commissions	817	721
Gross loans and receivables	306,505	284,286
Provision for impairment	(905)	(725)
	305,600	283,561

(b) Provision for impairment

Expected credit loss provision

	31 Dec 2020
Opening balance at 1 July 2020	725
Credit losses provided for	180
Bad debts written off during the period	-
Closing balance at 31 December 2020	905

(c) Credit quality – loans and advances

	31 Dec 2020	30 June 2020
Past due but not impaired		
30 days & less than 90 days	2,658	1,359
90 days & less than 182 days	-	164
182 days or more	636	964
	3,294	2,487
Impaired - mortgage loans		
Up to 90 days	-	-
Greater than 90 days	-	-
	-	-
Total past due and impaired	3,294	2,487
Neither past due nor impaired	302,394	281,078
Total gross loans and advances	305,688	283,565

Accounts subject to COVID-19 related repayment deferral arrangements are not recorded as past due. At 31 December 2020 there were 3 loan accounts totalling $1.0m (30 June 2020: 52 accounts totalling $13.95m) subject to repayment deferral not included in the past due but not impaired table above.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands of AUD	31 Dec 2020 $	30 June 2020 $
14. OTHER FUNDING LIABILITIES		
Reserve Bank Term Finance Facility	13,760	-

During the period, the Company has drawn down its available funding allowance under the RBA's Term Funding Facility (TFF). The Group's drawdown comprises two tranches repayable as follows:

- $8.0m fixed for three years at 0.25% repayable August 2023
- $5.7m fixed for three years at 0.10% repayable October 2023

These liabilities are recognised at amortised cost. The Company has provided collateral in the form of RBA repo-eligible semi government securities for an equal value of the TFF.

15. TRADE AND OTHER PAYABLES

Trade creditors and accrued expenses	2,773	2,736
Accrued commission payable	17,211	15,300
Lease liability	4,022	4,646
	24,006	22,682

In thousands of AUD	Number of shares	31 Dec 2020 $
16. SHARE CAPITAL		
Issue capital		
Beginning of the interim period	94,270,399	106,270
Exercise of performance rights	1,221,667	689
	95,492,066	106,959
Equity raising costs		
Balance at the beginning of the interim period		(2,754)
Costs incurred from exercise of performance rights		(11)
		(2,765)
Share capital net of costs		104,194

17. SHARE-BASED PAYMENTS

During the interim period ended 31 December 2020, the Company entered into the following share-based payment arrangements:

On 28 August 2020, the Company issued 450,000 performance rights to key management personnel in recognition of performance for the year ended 30 June 2020 pursuant to the BNK Executive Incentive Plan approved at the Company's 2019 Annual General Meeting (AGM). 50% of the performance rights vested immediately with the remaining 50% deferred for 4 years.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17. SHARE-BASED PAYMENTS (CONT'D)

On 1 October 2020, the Company issued 500,000 unlisted options to Bell Potter Securities Limited (BP). BP has been engaged to provide a broad range of corporate advisory services.

On 1 December 2020, the Company issued a further 1,000,000 unlisted options to BP following receipt of shareholder approval at the Company's 2020 AGM.

On 1 December 2020, the Company issued 125,000 performance rights to John Kolenda in recognition of his performance for the year ended 30 June 2020 as approved by shareholders at the Company's 2020 AGM. 50% of the performance rights vested immediately with the remaining 50% deferred for 4 years.

Measurement of grant date fair values

The fair value of performance rights is determined with reference to the Company's share price on the date of issue, whilst the options are valued using the Black Scholes method.

The following inputs were used in the measurement of the fair values at grant date

	KMP performance rights	BP Options tranche 1	BP Options tranche 2	BP Options tranche 3	KMP Performance rights
Grant date	28 August 2020	1 October 2020	1 December 2020	1 December 2020	1 December 2020
Fair value at grant date	$0.60	$0.20	$0.22	$0.17	$0.76
Share price at grant date	$0.60	$0.65	$0.76	$0.76	$0.76
Exercise price	-	$0.75	$1.00	$1.25	-
Expected volatility	-	54%	53%	53%	-
Expiry date	31 July 2025	1 October 2023	1 December 2023	1 December 2023	31 July 2025
Expected dividends	-	-	-	-	-
Risk-free interest rate	-	0.25%	0.25%	0.25%	-

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands of AUD	31 Dec 2020 $	30 Jun 2020 $

18. COMMITMENTS AND CONTINGENT LIABILITIES

At the reporting date, the company had the following loan and overdraft commitments outstanding:

(i) Outstanding loan commitments

Loans approved but not advanced	13,392	701
Loan funds available for redraw	15,453	14,765
	28,845	15,466

(ii) Outstanding overdraft commitments

Customer overdraft facilities approved but not disbursed	397	498

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. FINANCIAL INSTRUMENTS

A. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31 December 2020	**Carrying Amount**				**Fair value**		
In thousands of AUD	**Amortised cost**	**Fair value OCI – equity instruments**	**Fair value profit or loss**	**Fair value OCI**	**Level 1**	**Level 2**	**Level 3**
Financial assets:	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Cash and cash equivalents	50,365	-	-	-	-	-	-
Due from other financial institutions	24,828	-	-	-	-	-	-
Accrued commission receivable	17,040	-	-	-	-	-	-
Investment securities	56,073	-	-	-	-	-	-
Equity instruments	-	235	-	-	93	142	-
Loans and advances	305,600	-	-	-	-	-	-
Sub-lease finance lease receivable	962	-	-	-	-	-	-
Other receivables	3,023	-	-	-	-	-	-
Total	457,891	235	-	-	93	142	-
Financial liabilities:							
Deposits	391,292	-	-	-	-	-	-
Other funding liabilities	13,760	-	-	-	-	-	-
Accrued commission payable	17,211	-	-	-	-	-	-
Lease liability	4,022	-	-	-	-	-	-
Creditors and other payables	2,774	-	-	-	-	-	-
Total	429,059	-	-	-	-	-	-

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. FINANCIAL INSTRUMENTS (CONT'D)

A. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (CONT'D)

30 June 2020	**Carrying Amount**				**Fair value**		
In thousands of AUD	**Amortised cost**	**Fair value OCI – equity instruments**	**Fair value profit or loss**	**Fair value OCI**	**Level 1**	**Level 2**	**Level 3**
Financial assets:	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Cash and cash equivalents	18,122	-	-	-	-	-	-
Due from other financial institutions	33,335	-	-	-	-	-	-
Accrued commission receivable	16,551	-	-	-	-	-	-
Investment securities	37,996	-	-	-	-	-	-
Equity instruments	-	235	-	-	93	142	-
Loans and advances	283,561	-	-	-	-	-	-
Other receivables	8,872	-	-	-	-	-	-
Total	398,437	235	-	-	93	142	-
Financial liabilities:							
Deposits	345,791	-	-	-	-	-	-
Accrued commission payable	15,300	-	-	-	-	-	-
Lease liability	4,646	-	-	-	-	-	-
Creditors and other payables	2,736	-	-	-	-	-	-
Total	368,476	-	-	-	-	-	-

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. FINANCIAL INSTRUMENTS (CONT'D)

B. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Wherever possible, fair values are calculated by the Group using unadjusted quoted market prices in active markets for identical instruments. A quoted price in an active market provides the most reliable evidence of fair value. For all other financial instruments, the fair value is determined by using other valuation techniques.

As part of the fair value measurement, the Group classifies its assets and abilities according to a hierarchy that reflects the observability of significant market inputs. The three levels of the hierarchy are described below:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable in an active market
- Level 3 — Valuation techniques for which significant inputs to the fair value measurement are not based on observable market data

Type	**Valuation technique**	**Significant unobservable inputs**	**Inter-relationship between significant unobservable inputs and fair value measurement**
Equity securities – listed	Most recent traded price and other available market information	Not applicable	Not applicable
Equity securities – unlisted	Most recent traded price and other available market information	Not applicable	Not applicable

There were no reclassifications between Level 1 and Level 2 during the interim period.

20. EARNINGS PER SHARE

The following reflects the net income and share information used in the calculation of basic and diluted earnings per share:

	31 Dec 2020 $	**31 Dec 2019 $**
Profit/(Loss) for the period ($'000s)	2,176	2,999
	Number	**Number**
Weighted average number of ordinary shares used in the calculation of basic earnings per share:	95,108,423	82,433,159
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	96,065,527	83,776,438
Basic earnings per share (cents)	2.29	3.64
Diluted earnings per share (cents)	2.27	3.58

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

21. STANDARDS APPLICABLE IN FUTURE PERIODS

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however the Group has not early adopted them in preparing these consolidated financial statements.

The following amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to AASB 3)
- AASB 17 Insurance Contracts

22. EVENTS SUBSEQUENT TO BALANCE DATE

On 1 February 2021, the Company completed an issuance of 10-year floating rate subordinated notes to sophisticated and wholesale investors, raising $8,750,000 (before costs). The notes are eligible to be classified as Tier 2 capital and will pay interest to holders quarterly at a floating rate of 90-day BBSW plus a margin of 5.40%.

DIRECTORS' DECLARATION

In accordance with a resolution of directors of BNK Banking Corporation Limited, I state that:

In the opinion of the directors

(a) The consolidated financial statements and notes of BNK Banking Corporation Limited for the half-year ended 31 December 2020 are in accordance with the Corporations Act 2001, including:

 (i) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date.

 (ii) complying with Accounting Standard AASB 134 *'Interim Financial Reporting'* the Corporations Regulations 2001 and other mandatory professional reporting requirements;

(b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Jon Sutton
Chairman and Non-executive Director
Dated this 26th day of February 2021
Sydney

KPMG

Independent Auditor's Review Report

To the shareholders of BNK Banking Corporation Limited

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of BNK Banking Corporation Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of BNK Banking Corporation Limited does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 2020
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the half-year ended on that date
- Notes 1 to 22 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Group*** comprises BNK Banking Corporation Limited (the Company) and the entities it controlled at the half year's end or from time to time during the half-year.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Group are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and its performance for the half-Year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of an Interim Period Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

KPMG

Nicholas Buchanan

Partner

Sydney

26 February 2021