

**BNK Banking Corporation Limited – Half Year Report
(Appendix 4D) for the half year ended 31 December 2023**

The Directors of BNK Banking Corporation Limited (the “Company”) are pleased to announce the results of the Company for the half year ended 31 December 2023 as follows:

Results for announcement to the market

Extracted from the Interim Financial Statements for the half year ended	Movement	\$'000 31 December 2023	\$'000 31 December 2022
Revenue from operations	(6%)	8,065	8,557
Profit/(loss) after tax attributable to Members	32%	(1,816)	(2,685)

No dividend was paid or declared by the Company in the period and up to the date of this report.

Dividends paid or declared by the Company in respect of the previous half year.

Dividend Information	Amount Per Share (cents)	Franked Amount per Share (cents)	Tax rate for franking credit
Special Dividend 2022	34	34	30%

Ex-dividend Date	18 July 2022
Record Date	19 July 2022
Payment Date	26 July 2022

	31 December 2023	31 December 2022
Net Tangible Assets per share	\$1.00	\$1.03

The remainder of the information requiring disclosure to comply with Listing Rule 4.2A is contained in the attached copy of the Interim Financial Statements and comments on performance of the Company included in the Investor Presentation dated 22 February 2024.

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

Yours faithfully



Danny Davies
Company Secretary



BNK Banking Corporation Limited
ABN 63 087 651 849

Interim Financial Report
For the six months ended 31 December 2023

CONTENTS

CORPORATE INFORMATION 3

DIRECTORS’ REPORT 4

AUDITOR’S INDEPENDENCE DECLARATION..... 6

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION 7

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME 8

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 9

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS 10

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS 11

DIRECTORS’ DECLARATION..... 21

INDEPENDENT AUDITOR’S REVIEW REPORT 22

For personal use only

CORPORATE INFORMATION

ACN: 087 651 849

Directors

Mr. Jon Denovan	(Chairman and Non-Executive Director)
Ms. Elizabeth Aris	(Independent Non-Executive Director)
Mr. Calvin Ng	(Independent Non-Executive Director)
Mr David Gration	(Non-Independent Non-Executive Director)
Mr Warren McLeland	(Non-Independent Non-Executive Director)

Company Secretary

Mr Danny Davies

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:

Level 5, 50 Cavill Avenue
Surfers Paradise Qld 4217

Sydney Office

Level 11, 9 Castlereagh Street
Sydney NSW 2000

Share Registry:

Advanced Share Registry
110 Stirling Hwy
Nedlands WA 6009
Tel +61(8) 9389 8033
Fax +61(8) 6370 4203

Exchange Listing

Australian Securities Exchange Limited
Level 40, Central Park
152-158 St George's Terrace
Perth WA 6000
ASX Code: BBC

Auditors:

Grant Thornton
Level 17
383 Kent Street
Sydney NSW 2000

Website Address:

www.bnk.com.au

Corporate Governance:

A copy of the Corporate Governance Policy Statement can be located using the following website address:
<https://bnk.com.au/investor-centre/corporate-governance/>

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 2023.

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 J Denovan	Chairman and Non-Executive Director
Ms E A Aris	Non-Executive Director
Mr K W Ng	Non-Executive Director
Mr D Gratton	Non-Executive Director
Mr W McLeland	Non-Executive Director (appointed 11 December 2023)
Ms M L Guthrie	Non-Executive Director (resigned 31 July 2023)
Mr D J Crennan	Non-Executive Director (resigned 29 November 2023)
Mr D J Koch	Non-Executive Director (retired 11 December 2023)

PRINCIPAL ACTIVITIES

The principal activities of the Group were the provision of retail banking and wholesale mortgage management.

The Group provides banking products and services such as loans and deposits under the BNK, Goldfields Money and Better Choice brands.

Loans are distributed through the Better Choice business, via online applications with the accredited broker network, and may be funded by deposits, securitisation vehicles or third-party funders. Existing securitised funding warehouses remain in place with Goldman Sachs (\$500m) and Bendigo & Adelaide Bank (increased to \$300m in July 2023). In addition, BNK established a self-securitisation warehouse of \$300m in July 2023. Introducer broker channels receive commissions for loan origination and ongoing trail. Better Choice Wholesale earns and pays commissions on the loan books from the white label funders.

Deposits are originated under the Goldfields Money / BNK brand directly and through third party deposit brokers. The Group earns net interest income and service fees from providing a range of services to its retail and small business customers.

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.

There have been no adjusting movements between Statutory reported results and Management reported results in this or the comparable period.

REVIEW AND RESULTS OF OPERATIONS

The Group recorded an underlying net loss after tax from operations of \$1.8 million for the half-year ended 31 December 2023, an improvement of \$0.9m (32.4%) on the prior comparative period. Underlying earnings per share increased 32% to (1.53) cents per share.

Net interest income of \$8.6m was flat compared to the prior comparative period, whilst operating expenses reduced by 13% targeting the goal of sustained profitability.

DIRECTORS' REPORT (cont'd)

The Group's Direct Net Interest Margin (NIM) for the period was 1.01%, down from 1.32% at 30 June 2023 and 1.33% at 31 December 2022. The reduction in NIM was driven by a combination of intense market competition within the interest rate environment, shifts in the composition of the Group's assets and liabilities and rising wholesale funding costs.

Lending settlements dropped 25% during the half to \$366m. This was expected as the Group focused on selective higher margin lending and a reduced focus on prime residential loans. The total managed loan book, excluding offset balances, remained stable at \$2.7bn of which the directly funded loan book increased 9% to \$1.48bn (from \$1.35bn at 30 June 2023).

The loan book comprises 95% residential mortgages with an average weighted loan to valuation ratio of 63%. The Commercial loan book increased 23.6% from 30 June 2023 to \$67.5m at 31 December 2023 with average weighted loan to valuation of 60.44%. Credit quality remains strong with loans more than 90 days in arrears equating to 0.7% of total loans.

The Group maintained a capital adequacy ratio of 19.85% compared to 22.84% at 30 June 2023 and 25.6% at 31 December 2022.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs during the reporting period.

EVENTS SUBSEQUENT TO BALANCE DATE

On the 21st February 2024, the Board approved a cost reduction program within the group delivering annualised cost savings of approximately \$1.6m. There have been no other events subsequent to the balance date.

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.

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 Denovan

Jon Denovan
Chairman and Non-executive Director
Dated this 22nd day of February 2024

Grant Thornton Audit Pty Ltd
Level 17
383 Kent Street
Sydney NSW 2000
Locked Bag Q800
Queen Victoria Building NSW
1230
T +61 2 8297 2400

Auditor's Independence Declaration

To the Directors of BNK Banking Corporation Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of BNK Banking Corporation Limited for the half-year ended 31 December 2023. I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Claire Scott

C L Scott
Partner – Audit & Assurance
Sydney, 22 February 2024

www.grantthornton.com.au
ACN-130 913 594

Grant Thornton Audit Pty Ltd ACN 130 913 594 a subsidiary or related entity of Grant Thornton Australia Limited ABN 41 127 556 389 ACN 127 556 389. 'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Limited is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 ACN 127 556 389 and its Australian subsidiaries and related entities. Liability limited by a scheme approved under Professional Standards Legislation.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023

<i>In thousands of AUD</i>	Note	31 Dec 2023 \$	30 Jun 2023 \$
Assets			
Cash and cash equivalents	11	153,141	92,573
Due from other financial institutions	12	154,294	54,620
Other financial assets	14	151,074	147,578
Loans and advances	15	1,483,376	1,357,521
Trade and other receivables	13	2,928	2,860
Contract assets		14,735	16,759
Property, plant and equipment		343	490
Goodwill and other intangible assets	16	7,380	7,389
Deferred tax assets (net of liabilities)		341	-
Total Assets		1,967,612	1,679,790
Liabilities			
Deposits	17	1,548,503	1,252,260
Other financial liabilities	19	281,738	285,034
Trade and other payables	18	5,128	6,770
Contract Liabilities		4,805	5,930
Provisions		1,338	1,176
Deferred tax liabilities (net of assets)		-	437
Total Liabilities		1,841,512	1,551,607
Net Assets		126,100	128,183
Equity Attributable to Equity Holders			
Contributed equity			
Issued capital, net of raising costs	20	100,329	100,329
Reserves		1,636	1,903
Retained earnings		24,135	25,951
Total Equity		126,100	128,183

The accompanying notes should be read in conjunction with the financial statements

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER

<i>In thousands of AUD</i>	Note	31 Dec 2023	31 Dec 2022
		\$	\$
Interest revenue from banking activities	6	46,784	23,808
Interest expense on banking activities	6	(38,229)	(15,096)
Net interest income		8,555	8,712
Commission income	7	3	1,072
Commission expense	7	(1,877)	(3,201)
Net commission income/(expense)		(1,874)	(2,129)
Other income	8	1,384	1,974
Total net revenue		8,065	8,557
Operating expenses	9	(10,307)	(11,779)
Impairment of loans, advances and other receivables	15	(352)	(497)
(Loss)/Profit before income tax		(2,594)	(3,719)
Income tax benefit	10	778	1,034
(Loss)/Profit for the period		(1,816)	(2,685)
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss		-	-
Total comprehensive loss for the period		(1,816)	(2,685)
Earnings per share			
Basic earnings per share (cents)	25	(1.53)	(2.26)
Diluted earnings per share (cents)	25	(1.53)	(2.26)

The accompanying notes should be read in conjunction with the financial statements

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER**

In thousands of AUD

Attributable to equity holders	Issued Capital	Equity Raising Costs	Treasury Share Reserve	Liquidity Reserve	General Reserve for Credit Losses	Share-based Payments Reserve	Retained Earnings	Total Equity
	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 30 June 2023	103,664	(3,335)	(103)	725	-	1,281	25,951	128,183
(Loss)/Profit for the period	-	-	-	-	-	-	(1,816)	(1,816)
Total comprehensive income	-	-	-	-	-	-	(1,816)	(1,816)
Transactions with owners of the Company								
Special purpose vehicle reserve	-	-	-	(267)	-	-	-	(267)
Issue of share capital	-	-	-	-	-	-	-	-
Balance at 31 December 2023	103,664	(3,335)	(103)	458	-	1,281	24,135	126,100
Balance at 30 June 2022	122,275	(3,332)	(103)	-	446	1,291	69,799	190,376
(Loss)/Profit for the period	-	-	-	-	-	-	(2,685)	(2,685)
Total comprehensive income	-	-	-	-	-	-	(2,685)	(2,685)
Transactions with owners of the Company								
Cost of share-based payments	-	-	-	-	-	272	-	272
Dividends	-	-	-	-	-	-	(40,359)	(40,359)
Capital Return	(18,995)	-	-	-	-	-	-	(18,995)
Reclassification of reserve	-	-	-	-	(446)	-	446	-
Special purpose vehicle reserve	-	-	-	345	-	-	-	345
Issue of share capital	384	(4)	-	-	-	(10)	-	370
Balance at 31 December 2022	103,664	(3,336)	(103)	345	-	1,553	27,201	129,324

The accompanying notes should be read in conjunction with the financial statements

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

	Note	31 Dec 2023 \$	31 Dec 2022 \$
<i>In thousands of AUD</i>			
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		46,784	23,808
Fees and commissions received		3,445	762
Interest and other costs of finance paid		(37,781)	(15,083)
Other income received		-	14
Payments to suppliers and employees		(15,279)	(17,521)
Net increase in loans, advances and other receivables		(125,927)	(182,341)
Net increase in deposits		296,242	218,446
Net (payments)/receipts for investments		(103,169)	49,937
Net cash from/(used in) operating activities		64,315	78,022
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts for sale of property, plant and equipment		15	-
Payment for property, plant and equipment		(18)	-
Net cash used in investing activities		(3)	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		10,527	39,888
Repayment of borrowings		(14,089)	-
Payments for equity raising costs		-	(4)
Payments for lease liabilities		(182)	(155)
Payment of capital return		-	(18,610)
Payment of dividend		-	(40,359)
Net cash from/(used in) financing activities		(3,744)	(19,240)
Net increase/(decrease) in cash held		60,568	58,782
Cash and cash equivalents at 1 July		92,573	140,027
Cash and cash equivalents at the end of the period		153,141	198,809

The Consolidated Statement of Cash Flows includes all cash flows of the Group.

The accompanying notes should be read in conjunction with the 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 2023 comprise the Company and its subsidiaries (together referred to as "the Group"). The principal activities of the Company are the provision of retail banking and wholesale mortgage management.

2. BASIS OF PREPARATION

These interim financial statements are general purpose financial statements prepared in accordance with Australian Accounting Standard (AASB) 134 'Interim Financial Reporting' and the Corporations Act 2001, and with IAS 34 'Interim Financial Reporting'.

The interim financial statements do not include all the information required for a complete set of annual financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 30 June 2023.

These interim financial statements were authorised for issue by the Company's Board of Directors on 22nd February 2024.

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with the legislative instrument, amounts in the consolidated interim financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Changes in Accounting Standards

A. Changes adopted in the current period.

There are no new accounting standards becoming effective during the reporting period that have resulted in changes to the preparation of these condensed consolidated interim financial statements.

B. Changes to be adopted in future periods.

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2024 and earlier application is permitted. The Group has not adopted any of the forthcoming new or amended standard in preparing these condensed consolidated interim financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT JUDGEMENTS

The preparation of these interim financial statements that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements at 30 June 2023.

The Company's application and measurement of fair values is explained in note 24.

4. CHANGE IN ACCOUNTING POLICY

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 30 June 2023. The policy for recognising and measuring income taxes in the interim period is consistent with that applied in the previous interim period and is described in note 10.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In thousands of AUD

5. SEGMENT INFORMATION

AASB 8 requires operating segments to be identified on the basis of internal information provided to the chief operating decision makers, the Board of Directors, in relation to the Group's business activities.

All elements within this interim financial report to December 2023 relate to the single reporting segment of the Bank.

6. INTEREST INCOME AND EXPENSE

	31 Dec 2023	31 Dec 2022
	\$	\$
Interest income		
Loans and advances	38,808	21,067
Deposits with other institutions	7,976	2,741
Total interest income	46,784	23,808
Interest expense		
Deposits	29,730	9,549
Securitisation liabilities	7,343	4,602
Subordinated debt	1,123	908
Lease liabilities	10	20
Other	23	17
Total interest expense	38,229	15,096

7. COMMISSION INCOME AND EXPENSE

	31 Dec 2023	31 Dec 2022
	\$	\$
Upfront commission income	30	862
Trail commission income	1,997	2,798
Movement in net present value of future trail commission receivable	(2,024)	(2,588)
Total commission income	3	1,072
Upfront commission expense	1,030	1,818
Trail commission expense	1,973	2,194
Movement in net present value of future trail commission payable	(1,126)	(811)
Total commission expense	1,877	3,201

8. OTHER INCOME

	31 Dec 2023	31 Dec 2022
	\$	\$
Service fees and residual income	478	832
Lending fees	512	622
Transaction fees	388	506
Other	6	14
Total other income	1,384	1,974

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In thousands of AUD

9. OPERATING EXPENSES

	31 Dec 2023	31 Dec 2022
	\$	\$
Depreciation and amortisation	166	173
Information technology	1,147	1,011
Cloud based technology	-	109
Banking services delivery	201	190
Employee benefits	7,046	7,383
Professional services	325	1,441
Marketing	99	160
Occupancy	157	139
Other administration expenses	1,052	1,101
Securitisation expenses	114	72
Total operating expenses	10,307	11,779

10. INCOME TAX

	31 Dec 2023	31 Dec 2022
	\$	\$
The major components of income tax benefit recognised are:		
Current income tax expense	-	-
Deferred income tax (benefit)	(778)	(1,034)
Deferred income tax expense	-	-
Income tax (benefit)/expense	(778)	(1,034)

Income tax expense is recognised at an amount determined by multiplying the profit (loss) before tax for the interim reporting period by the annual income tax rate expected for the full financial year, adjusted for the tax effect of certain items recognised in full in the interim period.

For the six months ended 31 December 2023, the deferred income tax benefit reflects the recognition of carried forward tax losses amounting to \$778k (2022: \$1,034k). This recognition of carried forward tax losses is subject to judgements and estimates.

USE OF JUDGEMENTS AND ESTIMATES

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised. The Group assesses the probability through the consideration of factors leading to losses and the preparation of forecasts that indicate the Group's ability to generate taxable profits in the future.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
In thousands of AUD

11. CASH AND CASH EQUIVALENTS

31 Dec 2023 **30 Jun 2023**
\$ \$

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:

Cash at bank and on hand	152,181	90,707
Cash at Bank – restricted	960	1,866
	<u>153,141</u>	<u>92,573</u>

Restricted Cash is the cash reserves maintained in accordance with the Bullion Trust Deed and is available to meet certain shortfalls in respect to losses and liquidity. The cash is not available as free cash for the operations of the Group.

12. DUE FROM OTHER FINANCIAL INSTITUTIONS

31 Dec 2023 **30 Jun 2023**
\$ \$

Security deposits	17,620	17,620
Negotiable certificate of deposit and term deposits	92,575	-
Other ADI deposits	44,099	37,000
	<u>154,294</u>	<u>54,620</u>

13. TRADE AND OTHER RECEIVABLES

31 Dec 2023 **30 Jun 2023**
\$ \$

Accrued commission income	286	326
Prepayments	1,666	1,684
Trade and other receivables	976	850
	<u>2,928</u>	<u>2,860</u>

14. OTHER FINANCIAL ASSETS

31 Dec 2023 **30 Jun 2023**
\$ \$

Investments in debt securities (measured at amortised cost)	151,074	147,578
	<u>151,074</u>	<u>147,578</u>

Investments in debt securities totaling \$13,810,000 were provided in the comparable period as collateral to the RBA in respect of the Company's Term Funding Facility. This facility was fully repaid in the current interim reporting period – refer note 19

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
In thousands of AUD

15. LOANS AND ADVANCES

	31 Dec 2023 \$	30 Jun 2023 \$
(a) Classification		
Residential loans	1,406,105	1,295,591
Commercial loans	67,450	54,588
Personal loans	70	95
Overdrafts	3,962	1,386
Total gross loans and advances	1,477,587	1,351,660
Add: Unamortised broker commissions	7,911	7,194
Unamortised premium	1,199	1,636
Gross loans and receivables	1,486,697	1,360,490
Provision for impairment	(3,321)	(2,969)
	1,483,376	1,357,521

(b) Provision for impairment
Expected credit loss provision

	Stage1 \$	Stage 2 \$	Stage 3 \$	Overlays \$	Total \$
Opening balance at 1 July 2023	1,598	316	112	943	2,969
Movements during the period:					
Residential loans	(106)	12	518	-	424
Commercial loans	37	(16)	-	-	21
Management overlays				(104)	(104)
Bullion warehouse	11				11
Closing balance at 31 December 2023	1,540	312	630	839	3,321

The increase in the expected credit loss provision is part due to the increase in the gross carrying amount of loans and advances that includes a redirection towards Commercial lending and an uplift in the delinquency rates observed and documented below. The reduction in management overlay during the period was due to the model incorporating past loan behaviour from BNK's actual loan book as well as industry proxy data, a change from the June position.

(c) Credit quality – loans and advances

	31 Dec 2023 \$	30 Jun 2023 \$
Past due but not impaired		
30 days & less than 90 days	10,174	6,803
90 days & less than 182 days	6,691	1,513
182 days or more	3,534	296
	20,399	8,612
Impaired - mortgage loans		
Up to 90 days	-	-
Greater than 90 days	671	677
	671	677
Total past due and impaired	21,070	9,289
Neither past due nor impaired	1,456,517	1,342,371
Total gross loans and advances	1,477,587	1,351,660

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
In thousands of AUD

16. GOODWILL AND OTHER INTANGIBLE ASSETS

31 Dec 2023 30 Jun 2023

	\$	\$
Goodwill – at cost	7,100	7,100
Brand names, trademarks and domain names	170	170
Other intangible assets (less accum amortisation)	110	119
Total goodwill and other intangible assets	7,380	7,389

At 31 December 2023, Bank CGU was tested for impairment using the value in use approach, by discounting future cash flows (5 years) estimated from the continuing use of the CGU. The recoverable amount for the CGU was determined to be above the carrying amount.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent the Group's best estimates of future CGU performance, after considering internal and external sources of information.

Input	Dec 2023	Jun 2023
Discount rates (post-tax)	11.8%	11.3%
Terminal value growth rate	2.5%	2.5%
Budgeted net income growth rate (average of next 5 years)	22%	26%
Budgeted cost rates (average of next 5 years)	9%	8%

Discount rates were determined after assessing the Group's weighted average cost of capital and adjusting for risks specific to the CGU and/or the risks inherent to the cash flow forecasts. The cash flow projections include specific estimates from companies considered comparable over five years and a terminal growth rate thereafter. The terminal growth rate was determined based on management's estimate of the long-term growth rate, consistent with the assumptions that a market participant would expect.

Budgeted revenue was based on the Group's five year forward looking plans for the CGU taking into account past experience and adjustments regarding expectations of future outcomes including economic conditions. Haircuts of up to 30% have been applied to forward looking years for Revenue and up to 15% applied to operating expense to cater for these changes in economic conditions.

No impairment loss has been recognised for the CGU at 31 December 2023. The CGU generated headroom of \$8.0m.

Sensitivity Scenario

Management have reviewed both the Long-term growth and discount rate included in the impairment testing. In order to demonstrate the sensitivities within the impairment testing, management has stress tested these two key assumptions to the point at which impairment would be triggered.

The two factors stress tested are Discount rate and Net Income growth rate.

Input	Standard	Stressed movement +/-
Discount rates (post-tax)	11.75%	0.55%
Net income growth rate (average of years 4-5)	13.8%	1.6%*

*Actual haircut of +/- 2.5% applied to net revenue levels in years 4 and 5 resulting in average stressed change of 1.6%

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands of AUD

16 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

The outcomes of these sensitivity tests are;

- A reduction in the discount rate of 0.55% to 11.2% would result in headroom of \$17.4m
- An increase in the discount rate of 0.55% to 12.3% would result in impairment of the CGU
- An increase in the growth rates in Yrs. 4 and 5 by 1.6% to 15.3% would result in headroom of \$16.2m
- A reduction in the growth rates in Yrs. 4 and 5 by 1.6% to 12.2% would result in impairment of the CGU

Based on the above stress testing, management is satisfied that levels are appropriate and sufficient headroom remains given the approach already taken during the core testing and the stress testing performed. Management will continue to assess the carrying value of goodwill against forward forecasts and economic conditions.

17. DEPOSITS

	31 Dec 2023	30 Jun 2023
	\$	\$
Call deposits	665,638	593,602
Term deposits	882,865	658,658
	<u>1,548,503</u>	<u>1,252,260</u>

18. TRADE AND OTHER PAYABLES

	31 Dec 2023	30 Jun 2023
	\$	\$
Trade creditors and accrued expenses	4,634	6,088
Accrued commission payable	121	138
Lease liabilities	373	544
	<u>5,128</u>	<u>6,770</u>

19. OTHER FINANCIAL LIABILITIES

	31 Dec 2023	30 Jun 2023
	\$	\$
Reserve Bank Term Funding Facility	-	13,824
Securitisation liabilities	257,889	247,940
Subordinated debt	23,849	23,270
Total borrowings	<u>281,738</u>	<u>285,034</u>

The Subordinated debt characteristics remain unchanged from the annual financial statements to 30 June 2023.

Securitisation liabilities represent the continued utilisation of the securitisation warehouse funding facility established in 2021. The securitisation warehouse has a facility limit of \$300 million (increased from \$250m in July 2023).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands of AUD

20. SHARE CAPITAL

Issued capital

	Number of shares	31 Dec 2023
Beginning of the interim period	118,719,405	103,664
Movements in the period		
Exercise of performance rights	-	-
Issue Share Options	-	-
Balance at the end of the interim period	118,719,405	103,664

Equity raising costs

Balance at the beginning of the interim period	(3,335)
Costs incurred from exercise of performance rights	-
Balance at the end of the interim period	(3,335)

21. DIVIDENDS

No dividends were paid or proposed during the interim period.

22. SHARE-BASED PAYMENTS

During the interim period ended 31 December 2023, no new share-based payment arrangements were entered into.

23. COMMITMENTS AND CONTINGENT LIABILITIES

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

	31 Dec 2023	30 Jun 2023
	\$	\$
Loans approved but not advanced	5,841	14,006
Loan funds available for redraw	53,956	41,835
Unutilised overdraft limits	309	219
	60,106	56,060

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands of AUD

24. FINANCIAL INSTRUMENTS

A. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

<i>In thousands of AUD</i>	Fair value		Carrying amount	
	31 Dec 2023 \$	30 Jun 2023 \$	31 Dec 2023 \$	30 Jun 2023 \$
Financial assets				
Cash and cash equivalents	153,141	92,573	153,141	92,573
Due from other financial institutions	154,294	54,620	154,294	54,620
Other financial assets	155,452	142,361	151,074	147,578
Loans and advances	1,488,694	1,367,148	1,483,376	1,357,521
Other receivable	1,262	326	1,262	326
Total financial assets	1,952,843	1,657,028	1,943,147	1,652,618
Financial liabilities				
Deposits	1,548,147	1,252,737	1,548,503	1,252,260
Accrued commission payable	121	138	121	138
Other financial liabilities	281,738	285,034	281,738	285,034
Creditors and other payables	4,634	6,088	4,634	6,088
Total financial liabilities	1,834,640	1,543,997	1,834,996	1,543,520

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 liabilities 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

There were no reclassifications between the levels during the interim reporting period or the previous reporting period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
In thousands of AUD

25. 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 2023	31 Dec 2022
	\$	\$
Profit/(Loss) for the period (\$'000s)	(1,816)	(2,685)
	Number	Number
Weighted average number of ordinary shares used in the calculation of basic earnings per share:	<u>118,719,405</u>	<u>118,659,713</u>
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	<u>118,785,030</u>	<u>118,725,338</u>
Basic earnings per share (cents)	(1.53)	(2.26)
Diluted earnings per share (cents)	(1.53)	(2.26)

26. RELATED PARTIES

There were no related party transactions during the reporting period.

27. EVENTS SUBSEQUENT TO BALANCE DATE

On the 21st February 2024, the Board approved a cost reduction program within the group delivering annualised cost savings of approximately \$1.6m. There have been no other events subsequent to the balance date.

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 set out on pages 7 to 20 of BNK Banking Corporation Limited for the half-year ended 31 December 2023 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 2023 and of its performance for the six month period ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 '*Interim Financial Reporting*' the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (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 Denovan

Jon Denovan
Chairman and Non-executive Director
Dated this 22nd day of February 2024
Sydney

Grant Thornton Audit Pty Ltd
Level 17
383 Kent Street
Sydney NSW 2000
Locked Bag Q800
Queen Victoria Building NSW
1230
T +61 2 8297 2400

Independent Auditor's Review Report

To the Shareholders of BNK Banking Corporation Limited

Report on the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of BNK Banking Corporation Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2023, and the 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, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of BNK Banking Corporation Limited does not comply with the *Corporations Act 2001* including:

- a giving a true and fair view of the Group's financial position as at 31 December 2023 and of its performance for the half year ended on that date; and
- b complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

www.grantthornton.com.au
ACN-130 913 594

Grant Thornton Audit Pty Ltd ACN 130 913 594 a subsidiary or related entity of Grant Thornton Australia Limited ABN 41 127 556 389 ACN 127 556 389. 'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Limited is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 ACN 127 556 389 and its Australian subsidiaries and related entities. Liability limited by a scheme approved under Professional Standards Legislation.

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 Company 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.

Directors' responsibility for the half-year financial report

The Directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2023 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

A review of a half-year 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.



Grant Thornton Audit Pty Ltd
Chartered Accountants



C L Scott
Partner – Audit & Assurance
Sydney, 22 February 2024