

**BNK Banking Corporation Limited – Half Year Report
(Appendix 4D) for the half year ended 31 December 2021**

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 2021 as follows:

Results for announcement to the market

Extracted from the Financial Statements for the half year ended	Change	\$'000s 31 December 2021	\$'000s 31 December 2020
Revenue from operations	64.5%	278,428	169,250
Profit/(loss) after tax attributable to members	44.4%	2,716	1,881

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 2021	\$ 31 December 2020
Net Tangible Assets per share	0.77	0.69

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 Results Release dated 25 February 2022.

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.

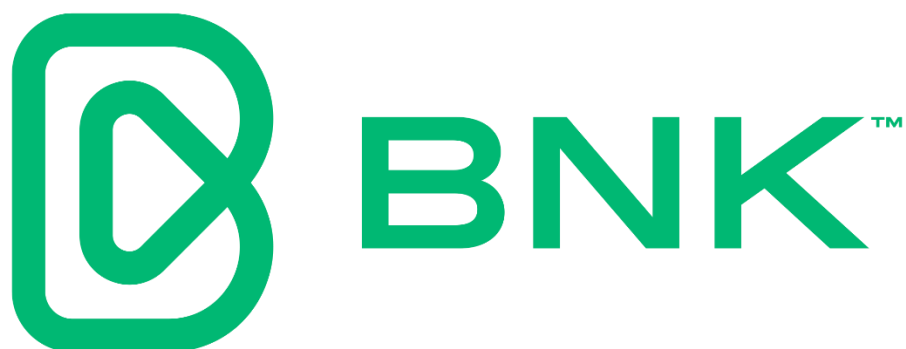
Yours faithfully



Malcolm Cowell
Company Secretary
Phone 0499 997 928

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BNK Banking Corporation Limited
ACN 087 651 849

Interim Financial Report
For the six months ended 31 December 2021

Corporate Information

ACN: 087 651 849

Directors

Don Koch	(Chairman and Non-executive Director)
Jon Denovan	(Deputy Chairman and Non-executive Director)
Peter Hall	(Non-executive Director)
Elizabeth Aris	(Non-executive Director)
Michelle Guthrie	(Non-executive Director)
Calvin Ng	(Non-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:

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 2021.

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.

D J Koch	Chairman and Non-Executive Director
J Denovan	Deputy Chairman and Non-Executive Director
P H Hall	Non-Executive Director
E A Aris	Non-Executive Director
M L Guthrie	Non-Executive Director
K W Ng	Non-Executive Director
J Kolenda	Executive Director (ceased 7 February 2022)

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:

	1H22	1H21 (Restated)	Change
Statutory Net Profit After Tax (\$'000s) including discontinued operations	2,716	1,881	44%
Revenue adjustments			
• Non-recurring gain on sale of Cuscal shares	(319)	-	
• Disposal of AAA	-	(57)	
Expense adjustments			
• IFRS fair value adjustments from Finsure acquisition	289	289	
• Software development costs	-	211	
• Strategic review transaction costs	417	-	
Tax effect of adjustments	(116)	(133)	
Underlying Net Profit after Tax (\$'000s) (Management-reported results)	2,987	2,191	36%

DIRECTORS' REPORT (cont'd)

The adjustments summarised above reflect the following:

- Gain on sale of shares realised from participating in Cuscal Limited's share buy-back;
- Current period impact of the amortisation of fair value adjustments to intangible assets arising from the acquisition of Finsure in 2018; and
- Costs incurred in relation to the strategic review as announced to the market previously.

REVIEW AND RESULTS OF OPERATIONS

The Group recorded an underlying net profit after tax of \$3.0 million for the half-year ended 31 December 2021, an increase of \$0.8m (36%) on the comparative period. Underlying earnings per share increased 13% to 2.6 cents per share.

The sale of Finsure to MA Financial Group Limited announced to the market on 15 December 2021 completed on 7 February 2022 with the Group receiving \$152.2 million in consideration. The strategic review of the Banking business continues with the objective of further maximizing shareholder value. The Board continues to evaluate capital management options with a focus of ensuring an appropriate balance of maintaining the ongoing capital strength requirements of BNK with a timely and tax efficient distribution of capital to shareholders.

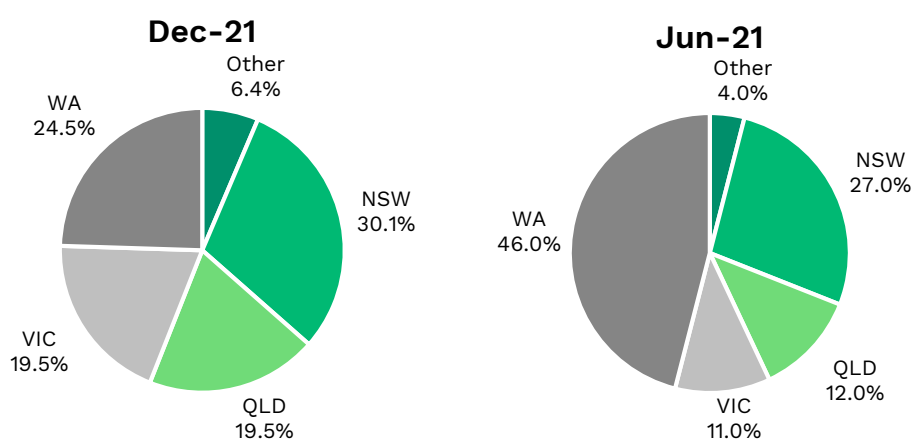
The assets and liabilities of Finsure are presented in the financial report as held for sale, and the profit on sale will be recognised as a Significant Item in 2H22.

During the reporting period, Finsure continued to generate loan originations through its platform of funders reflecting the ongoing productivity growth of accredited brokers and strong property market conditions. Finsure's statutory net profit result for the period was \$5.0m, an increase of 22% on the prior comparative period.

The Banking division reported a statutory loss of \$2.3m, unchanged from the comparative period. Net interest income grew by 76% reflecting the growth in the loan book partly offset by growth in operating expenses of 23% reflecting the continued investment in people, processes and technology to provide a strong platform for future growth.

Lending settlements were strong during the half at \$489m, an increase of 153% over the comparative half as the Banking business continued to transform its business as an on balance sheet lender, and leveraged the prime and specialist warehouses commenced in 4Q21 and 1Q22. The total loan book increased by 3% to \$2.54b (up from \$2.47b at 30 June 2021) and the higher margin on balance sheet loan book increased 26% to \$631m (up from \$499m at 30 June 2021).

The loan book comprises 98% residential mortgages with an average loan to valuation ratio of 62%. Credit quality remains sound with loans more than 90 days in arrears equating to less than 1% of total on balance sheet loans. No credit write-offs occurred in the half, and the business now reflects a diversified national lender.



At 31 December 2021, the Group maintained a capital adequacy ratio of 21.4%. During the period, the Group completed an additional Tier 2 subordinated note issue, successfully raising \$14m (before costs) providing ongoing capacity for strong on balance sheet lending volumes.

DIRECTORS' REPORT (cont'd)

Following the sale of Finsure, the capital adequacy ratio on a proforma basis is approximately 64%.

During the period, the Banking division recorded a Net Interest Margin (NIM) of 1.32%, down from 1.47% at 30 June 2021 reflecting the higher liquidity balances carried through the period. Growth in lower cost at call deposits enabled the Banking division to maintain a sound NIM in a period of strong competition and lower market returns from the Bank's liquidity portfolio.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 21 September 2021, the Group announced it had appointed advisors to commence a strategic review of the Group with the objective of maximising shareholder value.

On 15 December 2021, the Group announced the sale of the Finsure aggregation business to MA Financial for \$145 million in cash, subject to regulatory approval and cash adjustments.

EVENTS SUBSEQUENT TO BALANCE DATE

On 7 February 2022, the Company completed the sale of the Finsure aggregation business for consideration of \$152.2 million (before costs and income tax) comprising the sale price of \$145 million plus the Finsure cash adjustment under the Share Sale Agreement. This equates to a gain on sale of approximately \$100m (before tax), which will be reflected in BNK's second half results. No dividend has been declared or provided for from the sale proceeds, however the Company expects that a distribution in respect of a material portion of the Finsure sale proceeds will be made to shareholders in the third quarter of calendar year 2022.

On 7 February 2022, the Company vested 1,472,513 performance rights through the issuance of 1,472,513 fully paid ordinary shares to executives of Finsure in satisfaction of their entitlements under the BNK Equity Incentive Plan.

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.



Don Koch
Chairman and Non-executive Director
Dated this 25th day of February 2022



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 2021 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

Nic Buchanan

Partner

Sydney

25 February 2022

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

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

CONTINUING OPERATIONS

<i>In thousands of AUD</i>	Note	31 Dec 2021	31 Dec 2020 (Restated)
		\$	\$
Interest revenue from banking activities	7	8,779	5,167
Interest expense on banking activities		(2,923)	(1,844)
Net interest income		5,856	3,323
Commission income	6	2,120	7,126
Commission expense	6	(2,045)	(4,918)
Net commission income/(expense)		75	2,208
Other income	8	1,676	742
Total net revenue		7,607	6,273
Operating expenses	9	(10,402)	(8,426)
Impairment of insurance receivable and ATMs		-	(901)
Impairment of loans, advances and other receivables	14	(417)	(231)
Profit before income tax from continuing operations		(3,212)	(3,285)
Income tax (expense)/benefit	10	858	1,016
Profit from continuing operations		(2,354)	(2,269)
Discontinued operations			
Profit from discontinued operation, net of tax	5	5,070	4,150
Profit for the period		2,716	1,881
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss		-	-
Total comprehensive income for the period		2,716	1,881
Earnings per share			
Basic earnings per share (cents)	21	2.37	1.98
Diluted earnings per share (cents)	21	2.34	1.96
Loss per share – continuing operations			
Basic loss per share (cents)	21	(2.05)	(2.39)
Diluted loss per share (cents)	21	(2.05)	(2.39)

The accompanying notes form part of these financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021**

<i>In thousands of AUD</i>	Note	31 Dec 2021 \$	30 Jun 2021 \$
Assets			
Cash and cash equivalents	11	69,682	47,285
Due from other financial institutions		35,635	8,820
Other financial assets	13	167,928	148,148
Loans and advances	14	743,702	539,939
Commissions and other receivables	12	5,473	25,607
Contract assets		29,837	505,706
Property, plant and equipment		992	2,646
Goodwill and other intangible assets		7,487	43,689
Assets held for sale	5	650,155	-
Total Assets		1,710,441	1,321,840
Liabilities			
Deposits		828,696	635,647
Other financial liabilities	15	148,117	61,258
Commissions and other payables	16	1,965	27,592
Contract Liabilities		10,834	453,381
Provisions		1,028	1,678
Deferred tax liabilities		2,522	14,310
Liabilities held for sale	5	586,489	-
Total Liabilities		1,579,651	1,193,866
Net Assets		131,240	127,974
Equity Attributable to Equity Holders			
Contributed equity			
Issued capital, net of raising costs	17	117,376	116,728
Reserves		1,136	1,234
Retained earnings		12,728	10,012
Total Equity		131,240	127,974

The accompanying notes form part of these financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2021
In thousands of AUD

Attributable to equity holders	Issued Capital	Equity Raising Costs	Treasury Share Reserve	Financial Assets Revaluation Reserve	General Reserve for Credit Losses	Share-based Payments Reserve	Retained Earnings	Total Equity
	\$	\$	\$	\$	\$	\$	\$	\$
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
Balance at 1 July 2021	120,035	(3,307)	(103)	-	446	891	10,012	127,974
Profit for the period	-	-	-	-	-	-	2,716	2,716
Total comprehensive income	-	-	-	-	-	-	2,716	2,716
Transactions with owners of the Company								
Cost of share-based payments	-	-	-	-	-	558	-	558
Issue of share capital	656	(8)	-	-	-	(656)	-	(8)
Balance at 31 December 2021	120,691	(3,315)	(103)	-	446	793	12,728	131,240

The accompanying notes form part of these financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2021**

	Note	31 Dec 2021 \$	31 Dec 2020 \$
<i>In thousands of AUD</i>			
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		8,814	5,212
Fees and commissions received		159,918	107,905
Interest and other costs of finance paid		(2,961)	(1,923)
Other income received		19	2
Proceeds from insurance claim		-	2,034
Payments to suppliers and employees		(165,566)	(109,597)
Net increase in loans, advances and other receivables		(202,500)	(22,207)
Net increase in deposits and other borrowings		193,049	45,500
Net (payments)/receipts for investments		(46,258)	(9,570)
Net cash from/(used in) operating activities		(55,485)	17,356
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for intangible assets		-	(1,161)
Net cash used in investing activities		-	(1,161)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		86,847	13,760
Payments for equity raising costs		(8)	(11)
Payments for lease liabilities		(690)	(624)
Net cash from/(used in) financing activities		86,149	13,125
Net increase/(decrease) in cash held		30,664	29,320
Cash and cash equivalents at beginning of the period		47,285	21,045
Cash and cash equivalents at the end of the period		77,949	50,365
Less cash attributed to discontinued operation		(8,267)	-
Cash and cash equivalents continuing operations		<u>69,682</u>	<u>50,365</u>

The Consolidated Statement of Cash Flows includes all cash flows of the Group. Refer to note 5.B. for the summarised cash flows of the discontinued operation.

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 2021 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 2021 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 2021.

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 2021.

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 2021 where the impact of the COVID-19 pandemic continued to cause 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 two 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, Goldfields Money and Better Choice brands. Loans are distributed through the Better Choice business, via online applications and accredited brokers, and may be funded by deposits, securitisation vehicles or third party funders. Deposits are originated under the Goldfields Money brand directly and through third party deposit brokers. The segment earns net interest income and service fees from providing a range of services to its retail and small business customers.

Aggregation

The Aggregation segment provides contracted administrative and infrastructure support to approximately 2,100 (30 June 2021: 2,005) 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.

For the half-year ended 31 December 2021, the two segments reflect the continuing operations (Banking) and discontinued operations (Aggregation) as presented in this financial report.

- The Statement of Profit and Loss and Other Comprehensive Income presents the results of the two segments as net profit/(loss) after tax separately for continuing operations and discontinued operations, and similarly;
- the Statement of Financial Position segregates the assets and liabilities of the Aggregation business, presented as held for sale. Refer to note 5 for further information on the Aggregation segment.

Segment assets and liabilities for the comparative period are as follows:

<i>In thousands of AUD</i>	Banking	Aggregation	Eliminations	Total
Assets and Liabilities	\$	\$	\$	\$
Total segment assets	538,553	460,816	(43,501)	955,868
Total segment liabilities	424,987	411,999	3,493	840,479

5. DISCONTINUED OPERATION

On 15 December 2021, the Group executed a Share Sale Agreement (SSA) for the sale of BNK's 100% owned subsidiary, Finsure Holding Pty Ltd and related Aggregation subsidiaries to MA Financial Group Limited (MAF). The sale completed on 7 February 2022, resulting in the Group receiving cash consideration of \$152.2 million, comprising \$145 million (before costs and tax on disposal) consideration for the shares plus cash adjustments of \$7.2 million.

The Aggregation division was not previously classified as held-for-sale or as a discontinued operation. The comparative Consolidated Statement of Profit or Loss and Other Comprehensive Income has been represented to show the discontinued operation separately from continuing operations. The assets and liabilities of the Aggregation division are grouped as single line items in the Consolidated Statement of Financial Position as at balance date, however the comparative period is not represented.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. Results of discontinued operation

	31 Dec 2021	31 Dec 2020
	\$	\$
<i>In thousands of AUD</i>		
Revenue	265,853	156,215
Elimination of inter-segment revenue	-	-
External revenue	265,853	156,215
Expenses	(258,541)	(150,384)
Elimination of inter-segment expenses	20	335
External expenses	(258,521)	(150,049)
Results from discontinued operating activities	7,332	6,166
Income tax expense	(2,262)	(1,985)
Results from discontinued operating activities, net of tax	5,070	4,181
Basic earnings per share	4.42	4.36
Diluted earnings per share	4.38	4.32

The gain on disposal attributable from the sale of the Aggregation division will be recognised subsequent to balance date.

B. Assets and liabilities of disposal group classified as held for sale

Assets and liabilities classified as held for sale at 31 December 2021 comprise the following:

	31 Dec 2021
	\$
<i>In thousands of AUD</i>	
Assets	
Cash and cash equivalents	8,267
Commission receivables	33,196
Contract assets	571,978
Property, plant and equipment	1,099
Goodwill and other intangible assets	35,615
Assets held for sale	650,155
Liabilities	
Commission and other payables	36,860
Contract liabilities	535,509
Provisions	914
Deferred tax liabilities	13,206
Liabilities held for sale	586,489

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

C. Cash flows from (used in) discontinued operation

	31 Dec	31 Dec
	2021	2020
	\$	\$
<i>In thousands of AUD</i>		
Net cash from operating activities	4,514	3,172
Net cash from/(used in) investing activities	212	(577)
Net cash used in financing activities	(198)	(545)
Net cash flows for the period	4,528	2,050

In thousands of AUD

6. COMMISSION INCOME AND EXPENSE

Upfront commission income	1,190	1,083
Trail commission income	3,459	4,083
Net present value of future trail commission receivable	(2,529)	1,960
Total commission income	2,120	7,126

Upfront commission expense	1,277	916
Trail commission expense	2,119	1,972
Net present value of future trail commission payable	(1,351)	2,030
Total commission expense	2,045	4,918

7. INTEREST INCOME

Loans and advances	8,522	4,952
Deposits with other institutions	257	215
Total interest income	8,779	5,167

8. OTHER INCOME

Service fees and residual income	316	396
Lending fees	482	335
Transaction fees	522	9
Other	356	2
Total other income	1,676	742

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	31 Dec 2021	31 Dec 2020 (Restated)
	\$	\$
<i>In thousands of AUD</i>		
9. OPERATING EXPENSES		
Depreciation and amortisation	193	220
Information technology	872	947
Cloud based technology	662	492
Banking services delivery	243	212
Employee benefits	6,382	4,922
Professional services	646	425
Marketing	151	136
Occupancy	127	131
Other administration expenses	1,126	941
Total operating expenses	10,402	8,426

10. INCOME TAX

The major components of income tax benefit recognised are:

Current income tax expense	-	-
Deferred income tax (benefit) – continuing operations	(858)	(1,016)
Deferred income tax expense – discontinuing operations	2,262	1,985
Income tax expense	1,404	969

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	31 Dec 2021	30 June 2021
	\$	\$
<i>In thousands of AUD</i>		
11. 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:		
Cash at bank and on hand – continuing operations	69,682	47,285
	<u>69,682</u>	<u>47,285</u>
12. COMMISSIONS AND OTHER RECEIVABLES		
Accrued commission income	747	19,418
Securitisation deposits	2,216	373
Sub-lease finance lease receivable	-	817
Prepayments	1,294	1,915
Trade and other receivables	1,300	3,168
Less provision for impairment	(84)	(84)
	<u>5,473</u>	<u>25,607</u>
13. OTHER FINANCIAL ASSETS		
Investments in debt securities (measured at amortised cost)	167,928	148,006
Shares in unlisted corporations (measured at fair value through OCI)	-	142
	<u>167,928</u>	<u>148,148</u>

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 15.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	31 Dec 2021	30 June 2021
	\$	\$
<i>In thousands of AUD</i>		
14. LOANS AND ADVANCES		
(a) Classification		
Residential loans	725,622	522,554
Personal loans	420	546
Overdrafts	1,267	1,299
Term loans	13,595	14,009
Total gross loans and advances	740,904	538,408
Add: Unamortised broker commissions	4,235	2,556
Gross loans and receivables	745,139	540,964
Provision for impairment	(1,437)	(1,025)
	743,702	539,939
(b) Provision for impairment		
Expected credit loss provision		
Opening balance at 1 July 2021	1,025	
Credit losses provided for	412	
Bad debts written off during the period	-	
Closing balance at 31 December 2021	1,437	
(c) Credit quality – loans and advances		
Past due but not impaired		
30 days & less than 90 days	3,745	2,860
90 days & less than 182 days	1,106	1,192
182 days or more	773	164
	5,624	4,216
Impaired - mortgage loans		
Up to 90 days	-	-
Greater than 90 days	-	-
	-	-
Total past due and impaired	5,624	4,216
Neither past due nor impaired	735,280	534,192
Total gross loans and advances	740,904	538,408

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	31 DEC 2021 \$	30 JUNE 2021 \$
<i>In thousands of AUD</i>		
15. OTHER FINANCIAL LIABILITIES		
Reserve Bank Term Finance Facility	13,784	13,772
Securitisation liabilities	110,839	37,846
Subordinated debt	23,494	9,640
Total borrowings	148,117	61,258

On 30 September 2021, the Group issued \$14 Million of subordinated floating rate notes. The notes are fully paid, unsecured with a maturity date of 30 September 2031, with an option to redeem the notes early on or after 30 September 2026, subject to APRA's approval.

Securitisation liabilities represent the continued utilisation of the securitisation warehouse funding facility established during the previous year. The securitisation warehouse has a facility limit of \$250 million.

16. COMMISSIONS AND OTHER PAYABLES

Trade creditors and accrued expenses	562	4,361
Accrued commission payable	386	19,863
Lease liabilities	1,017	3,368
	1,965	27,592

	Number of shares	31 Dec 2021 \$
<i>In thousands of AUD</i>		
17. SHARE CAPITAL		
Issue capital		
Beginning of the interim period	114,187,400	120,035
Exercise of performance rights	1,079,885	656
	115,267,285	120,691
Equity raising costs		
Balance at the beginning of the interim period		(3,307)
Costs incurred from exercise of performance rights		(8)
		(3,315)

18. SHARE-BASED PAYMENTS

During the interim period ended 31 December 2021, the Company entered into the following share based payment arrangements:

On 18 August 2021, the Company issued 4,950,000 Transformational Long Term Incentive Plan (TLTIP) performance rights to key management personnel as a long term incentive. A further 1,200,000 were issued to John Kolenda following approval of the grant by shareholders at the 2021 Annual General Meeting. The TLTIP performance rights are subject to achievement of growth in share price and underlying cash earnings per share over a 3 year measurement period commencing 1 July 2021 to 30 June 2024.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. SHARE-BASED PAYMENTS (CONT'D)

On 1 September 2021, the Company issued 287,500 performance rights as a short term incentive in relation to performance for FY21. 194,885 of the performance rights are available for immediate exercise, with the remaining balance subject to a deferral period of 4 years in accordance with the requirements under the Banking Executive Accounting Regime (BEAR).

Measurement of grant date fair values

The TL TIP performance rights were valued by an independent valuation specialist. The tranche subject to share price growth hurdles was valued using a Monte-Carlo simulation method, whilst the tranche subject to EPS growth was valued using a Binomial tree method.

The FY21 Bonus performance rights were valued with reference to the Company's share price at grant date.

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

	TL TIP performance rights	FY21 Bonus Performance rights		
Grant date	18 August 2021	1 September 2021		
Fair value at grant date	\$0.5225	\$0.80		
Share price at grant date	\$0.77	\$0.80		
Exercise price	-	-		
Expected volatility	40%	-		
Expiry date	30 June 2027	30 June 2026		
Expected dividends	-	-		
Risk-free interest rate	0.18%	-		
			31 Dec	30 Jun
			2021	2021
			\$	\$

In thousands of AUD

19. COMMITMENTS AND CONTINGENT LIABILITIES

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

Outstanding loan commitments		
Loans approved but not advanced	17,528	13,861
Loan funds available for redraw	25,290	22,990
Unutilised overdraft limits	157	113
	<u>42,975</u>	<u>36,964</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20. 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 for continuing operations. 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. Financial assets and liabilities held for sale are recognised at the lower of fair value less costs to sell, and the carrying amount.

31 December 2021

<i>In thousands of AUD</i>	Carrying Amount				Fair value		
	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	69,682	-	-	-	-	-	-
Due from other financial institutions	35,635	-	-	-	-	-	-
Accrued commission receivable	747	-	-	-	-	-	-
Investment securities	167,928	-	-	-	-	-	-
Loans and advances	743,702	-	-	-	-	-	-
Other receivables	4,726	-	-	-	-	-	-
Total	1,022,420	-	-	-	-	-	-
Financial liabilities:							
Deposits	828,696	-	-	-	-	-	-
Other funding liabilities	148,117	-	-	-	-	-	-
Accrued commission payable	385	-	-	-	-	-	-
Lease liability	1,017	-	-	-	-	-	-
Creditors and other payables	562	-	-	-	-	-	-
Total	978,777	-	-	-	-	-	-

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20. FINANCIAL INSTRUMENTS (CONT'D)

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

30 June 2021

<i>In thousands of AUD</i>	Carrying Amount				Fair value		
	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	47,285	-	-	-	-	-	-
Due from other financial institutions	8,820	-	-	-	-	-	-
Accrued commission receivable	19,418	-	-	-	-	-	-
Investment securities	147,236	-	-	-	-	-	-
Equity instruments	-	142	-	-	-	142	-
Loans and advances	546,658	-	-	-	-	-	-
Total	769,417	142	-	-	-	142	-
Financial liabilities:							
Deposits	635,647	-	-	-	-	-	-
Accrued commission payable	19,863	-	-	-	-	-	-
Other financial liabilities	61,258	-	-	-	-	-	-
Lease liability	3,368	-	-	-	-	-	-
Creditors and other payables	4,361	-	-	-	-	-	-
Total	724,497	-	-	-	-	-	-

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20. 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 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

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
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.

21. 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 2021 \$	31 Dec 2020 \$
Profit/(Loss) for the period (\$'000s)	2,716	1,881
Profit/(Loss) for the period – Continuing operations	(2,354)	(2,269)
Profit/(Loss) for the period – Discontinued operations	5,070	4,150
	Number	Number
Weighted average number of ordinary shares used in the calculation of basic earnings per share:	114,813,764	95,108,423
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	115,872,945	96,065,527
Basic earnings per share (cents)	2.37	1.98
Diluted earnings per share (cents)	2.34	1.96
Basic loss per share (cents) – Continuing operations	(2.05)	(2.39)
Diluted loss per share (cents) – Continuing operations	(2.05)	(2.39)
Basic earnings per share (cents) – Discontinued operations	4.42	4.36
Diluted earnings per share (cents) – Discontinued operations	4.38	4.32

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

22. CHANGES IN ACCOUNTING STANDARDS

A. Changes adopted in the current period

The comparative Statement of Profit or Loss and Other Comprehensive Income has been restated to reflect the impact of the International Financial Reporting Standards Interpretations Committee (IFRIC) agenda decision titled *Configuration or customisation costs in a cloud computing arrangement* in April 2021.

The Group's accounting policy has historically been to capitalise all costs associated with SaaS arrangements as intangible assets in the Statement of Financial Position. The adoption of the above agenda decision has resulted in a reclassification of these intangible assets to either a prepaid asset in the Statement of Financial Position and/or recognition as an expense in the Statement of Profit or Loss and Other Comprehensive Income, impacting both the current period and prior periods presented. The Group has expensed amounts previously capitalised as intangible assets and reversed previously recognised amortisation expense for the comparative period.

Refer to note 8.1 of the Annual Financial Report for 30 June 2021 for further information.

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 2022 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

23. EVENTS SUBSEQUENT TO BALANCE DATE

On 7 February 2022, the Company completed the sale of the Finsure aggregation business for consideration of \$152.2 million (before costs and income tax) comprising the sale price of \$145 million plus the Finsure cash adjustment under the Share Sale Agreement with MA Financial Group Limited. This equates to a gain on sale of approximately \$100m (before tax), which will be reflected in BNK's second half results. No dividend has been declared or provided for from the sale proceeds, however the Company expects that a distribution in respect of a material portion of the Finsure sale proceeds will be made to shareholders in the third quarter of calendar year 2022.

On 7 February 2022, the Company vested 1,472,513 performance rights through the issuance of 1,472,513 fully paid ordinary shares to executives of Finsure in satisfaction of their entitlements under the BNK Equity Incentive Plan.

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 2021 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 2021 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:



Don Koch
Chairman and Non-executive Director
Dated this 25th day of February 2022
Sydney



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 2021 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 2021
- 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 23 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 these requirements.

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 30 December 2021 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



Nic Buchanan

Partner

Sydney

25 February 2022