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 2019

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 2019 as follows:

Results for announcement to the market

Extracted from the Financial Statements for the half year ended	Change	$'000s 31 December 2019	$'000's 31 December 2018
Revenue from operations	81%	153,993	85,270
Profit/(loss) after tax attributable to members	348%	2,999	670

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 2019	$ 31 December 2018
Net Tangible Assets per share	0.67	0.67

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 Company included in the Investor Presentation dated 28 February 2020.

This announcement has been authorised for release to the ASX by the board of directors of BNK.

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 (08) 9438 8811

BNK Banking Corporation Limited
ACN 087 651 849

Interim Financial Report
For the six months ended 31 December 2019

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. Simon Lyons	(Managing 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

CONTENTS

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 2019.

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 (appointed as Director on 23 October 2019 and Chairman from 26 November 2019)
Mr. Peter Wallace	Retired as Chairman and Non-executive Director on 26 November 2019
Mr. Derek LaFerla	Retired as Deputy Chairman and Non-executive Director on 30 August 2019
Mr. Don Koch	Deputy Chairman and Non-executive Director (appointed Deputy Chairman from 26 November 2019)
Mr. Jon Denovan	Non-executive Director (Appointed 2 September 2019)
Mr. Peter Hall	Non-executive Director
Mr. Simon Lyons	Managing Director
Mr. John Kolenda	Executive Director

PRINCIPAL ACTIVITIES

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

REVIEW AND RESULTS OF OPERATIONS

The Group has recorded a statutory net profit after tax of $3.0 million for the half-year ended 31 December 2019, an increase of $2.3 million on the comparative period, representing the first full interim period of the merged group comprising BNK and Finsure Holding Pty Ltd (Finsure). The comparative period represents a full half-year period of the Company plus the results of Finsure consolidated from 17 September 2018.

The interim period evidenced the Group continuing to consolidate and realise the benefits of the integration between the three operating divisions of the Group. A key driver of the merger between BNK and Finsure was the enhanced distribution capability and scale that Finsure would deliver to BNK, and the ability for Finsure to capture a greater margin from the significant volume of loans that the Finsure and better Choice Home Loans platforms facilitates.

At 31 December 2019, the Group maintained a capital adequacy ratio of 17.57%. As noted below, subsequent to balance date, the Company has completed a placement of $7.02 million in order to strengthen the balance sheet and ensure the Group's capital adequacy ratio remains adequately above the minimum threshold prescribed by the Australian Prudential Regulation Authority (APRA). The company has also announced an entitlement offer in the form of a 1 for 10 (1 new share for every 10 existing shares) non-renounceable pro rata entitlement offer to raise up to $5,654,400 (before costs and subject to rounding) via the issue of up to 9,424,9040 shares(subject to rounding) at an issue price of $0.60c.

No dividend has been declared for the half-year ended 31 December 2019.

Banking

On balance sheet loans originated by the Banking division grew by 23.7% from $214.2 million at 30 June 2019 to $264.9 million at 31 December 2019, compared to 3.1% for the comparative half-year period, which demonstrates the strength of our new distribution capability Additionally, the Bank originated a further $9.4 million into the Receivables Acquisition & Servicing Agreement (RASA) with Bendigo & Adelaide Bank Limited increasing loans under management for the Banking division to $310.3 million. Credit quality remains sound with loans more than 90 days in arrears equating to less than 1% of total on balance sheet loans.

DIRECTORS' REPORT (cont'd)

During the period, the Banking division increased its geographical diversification, and in light of significant market competition, focused on maximising return on capital from higher yielding lending products to service particular prime markets.

A key objective of the Banking division is to reduce the overall cost of funding through diversifying and improving its funding mix. Effective liquidity management and growth in lower cost at call deposits enabled the Banking division to maintain a sound net interest margin of 1.77% in a period of strong competition and reductions in the official cash rate.

The Banking division has continued to invest in improving its new technology platform, with the planned upgrade of its core banking system to Temenos' R18 Software as a Service offering scheduled for the second half of FY20. This, combined with an innovative new banking app under development is expected to lead to enhanced processing efficiency, and meet the unique demands of our target market of enterprising Australians

From a people perspective, the Bank filled a number of key hires during the period, adding to the division's capabilities in the areas of operations, legal and finance. The rollout of Bank@Post to the Bank's customers during the period now enables the Bank's customers to transact across the counter at more than 3,500 Australian Post branches Australia-wide and this national footprint will assist BNK as it rolls out new deposit products in the coming months.

As announced to the ASX on 26 November 2019, the Company was advised of the appointment of liquidators to ATM Co Pty Ltd and Tuff Enterprises Pty Ltd, entities with which the Company held ATM bailment and cash in transit agreements. The liquidator of these companies has notified the Company the cash has not been located. The Company has lodged a claim with its insurer for the missing cash totaling approximately $2,925,000. The Company continues to engage with its insurer to provide the necessary documentation and evidence in support of the claim and a decision regards the claim is anticipated by 30 June 2020.

In the half-year results to 31 December 2019, the decline in ATM fee revenue has been offset by profits generated through strong portfolio growth and active management of the Bank's liquidity portfolio.

Aggregation

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.

Finsure derives revenue from flat fee offerings as well as a commission margin differential business model. Mature, experienced brokers gravitate towards a fixed fee offering whilst new brokers tend to favour a commission-based arrangement with an ability to transition to a fixed fee offering as their business matures. Finsure has continued to gain market share in broker numbers and settlements.

During the interim period, the number of brokers utilising the platform remained stable 1,667 (30 June 2019: 1,674). Finsure has experienced strong growth in broker numbers in the last two years, and the Aggregation division has continued its focus on assisting these brokers build their business to scale, maximising their potential. Settlements for the interim period of $7.3 billion represented an 8.5% increase on the comparative period, with the commission loan book reaching a record $41.9 billion. The key to Aggregation's continued success is increasing the number of brokers and revenue created through innovative, value added opportunities.

The strong growth in settlements was reflected in the NPV of future trail commissions increasing by a net amount of $3.46 million during the period and a reduction in the discount rate applied to these commissions.

The ability to grow revenue in a profitable manner is dependent upon continuing innovation. During the period, Finsure introduced the new Infynity software platform, providing enhanced capability and efficiency to brokers. In addition, Finsure brought its compliance and broker audit processes in-house, enhancing the coverage and capability of Finsure to deliver targeted, effective training and improving compliance outcomes for its panel of lenders.

DIRECTORS' REPORT (cont'd)

Wholesale

The Wholesale division continues to maintain relationships and distribute white label products through a range of funders. The interaction of Wholesale with the Banking division continues to flourish and is a major factor in the increased flow of on balance-sheet loans for the Group. Whilst Wholesale's loan book remained stable at approximately $2.32 billion, 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.

A key benefit of the Wholesale division is its visibility of product and pricing offerings by other funders, as well as demand from brokers for innovative products. Wholesale benefits from its ability to tailor products in partnership with its funders to meet current market demand at price points that are both profitable and unique. Wholesale has avoided the "race to the bottom" that other non-bank lenders have pursued and remains a key distribution point of difference for the Bank. This has meant that the Group has benefited from the improved margin capture and on balance sheet loan book growth.

During the period, Wholesale upgraded its loan management system and migrated the majority of its legacy portfolios to the enhanced platform. This provides enhanced workflow efficiencies, coupled with improved accuracy and efficiencies in processing commission payments.

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 7 February 2020, Bendigo & Adelaide Bank Limited advised their approval of an extension of the Group's Receivables Acquisition & Servicing Agreement to February 2021. Additionally, BEN advised the conditional approval of an increase in the facility limit from $60 million to $90 million, subject to final agreement on certain programme parameters being reached.

On 18 February 2020, the Company completed a placement to sophisticated investors through the issue of 11,700,000 fully paid shares at a price of $0.60 per share, raising $7,020,000 (before costs).

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 Sutton
Chairman and Non-executive Director
Dated this 28th day of February 2020

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 2019 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
28 February 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

CONTINUING OPERATIONS	**Note**		
In thousands of AUD		**31 Dec 2019**	**31 Dec 2018**
		$	**$**
Interest revenue from banking activities	6	5,387	4,236
Interest expense on banking activities		(3,042)	(2,599)
Net interest income		2,345	1,637
Commission income	5	139,940	77,768
Commission expense	5	(130,102)	(71,219)
Net commission income/(expense)		9,838	6,549
Other income	7	8,666	3,266
Total net revenue		**20,849**	**11,452**
Operating expenses	8	(13,705)	(9,592)
Merger expenses		-	(860)
Impairment of bailment cash	10	(2,925)	-
Impairment reversal/(expense) on loans and advances	13	(79)	-
Profit before income tax from continuing operations		**4,140**	**1,000**
Income tax (expense)/benefit	9	(1,141)	(330)
Profit for the period		**2,999**	**670**
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss		-	-
Total comprehensive income for the period		**2,999**	**670**
Basic earnings per share (cents)	18	3.64	1.14
Diluted earnings per share (cents)	18	3.58	1.12

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

In thousands of AUD	Note	31 Dec 2019	30 Jun 2019
		$	$
Assets			
Cash and cash equivalents	10	14,507	19,381
Trade and other receivables	11	350,688	285,485
Due from other financial institutions		18,320	32,344
Loans and advances	13	265,184	214,323
Other financial assets	12	31,287	46,194
Property, plant and equipment		4,098	1,197
Goodwill and other intangible assets		48,484	47,218
Deferred tax assets		-	-
Total Assets		732,568	646,142
Liabilities			
Deposits		306,830	287,126
Trade and other payables	14	307,554	245,225
Provisions		1,437	1,292
Current tax liabilities		273	-
Deferred tax liabilities		12,930	12,063
Total Liabilities		629,024	545,706
Net Assets		103,544	100,436
Equity Attributable to Equity Holders			
Contributed equity			
Issued capital, net of raising costs	15	96,628	96,568
Reserves		1,123	1,074
Retained earnings		5,793	2,794
Total Equity		103,544	100,436

The accompanying notes form part of these financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

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 2018	**24,080**	**1,830**	**(1,630)**	**-**	**97**	**205**	**342**	**357**	**(716)**	**24,565**
Profit for the period	-	-	-	-	-	-	-	-	670	670
Other comprehensive income	-	-	-	-	-		-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**670**	**670**
Transactions with owners of the Company										
Cost of share-based payments	-	-	-	-	-	-	-	290	-	290
Issue of share capital	73,316	-	-	-	-	-	-	(341)	-	72,975
Equity raising costs, net of tax	-	-	(990)	-	-	-	-	-	-	(990)
Balance at 31 December 2018	**97,396**	**1,830**	**(2,620)**	**-**	**97**	**205**	**342**	**306**	**(46)**	**97,510**
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**

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

In thousands of AUD	Note	31 Dec 2019 $	31 Dec 2018 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		5,387	4,313
Fees and commissions received		84,302	52,788
Interest and other costs of finance paid		(3,042)	(2,600)
Other income received		902	1
Payments to suppliers and employees		(84,829)	(57,182)
Net increase in loans, advances and other receivables		(50,724)	(5,231)
Net increase in deposits and other borrowings		19,704	21,773
Net (payments)/receipts for investments		28,930	(11,932)
Net cash from/(used in) operating activities		630	1,930
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash acquired in a business combination		-	294
Payments for property, plant and equipment		(8)	(106)
Payments for intangible assets		(1,881)	(1,389)
Net cash used in investing activities		(1,889)	(1,201)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of capital		-	20,000
Payments for treasury shares		(102)	-
Payments for equity raising costs		(2)	(1,277)
Payments for lease liabilities		(586)	-
Repayment of borrowings		-	(11,003)
Net cash from financing activities		(690)	7,720
Net increase/(decrease) in cash held		(1,949)	8,449
Cash and cash equivalents at beginning of the period		19,381	14,529
Cash and cash equivalents at the end of the period	10	17,432	22,978

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 2019 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 2019 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 2019.

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 2019, except for new significant judgements and key sources of estimation uncertainty arising from the application of AASB 16 which are described in Note 20.

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 next financial year that are different from our assumptions and estimates could require an adjustment to the carrying amounts of the assets and liabilities reported.

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 Company's existing branch network, via online applications, accredited brokers and through the Group's Wholesale division. 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 in excess of 1,667 (31 December 2018: 1,581) 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 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 and pays a substantial portion 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 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

Half-year ended 31 December 2018

In thousands of AUD	**Banking**	**Wholesale**	**Aggregation**	**Eliminations**	**Total**
Continuing operations					
Revenue					
External customers	4,839	3,742	76,689	-	85,270
Inter-segment	80	1	-	(81)	-
Total segment revenue	**4,919**	**3,743**	**76,689**	**(81)**	**85,270**
Results					
Segment profit/(loss) before income tax	(2,039)	(1,566)	4,605	-	1,000
Income tax (expense)/benefit	586	470	(1,382)	-	(330)
Net profit/(loss) after tax	**(1,453)**	**(1,096)**	**3,223**	**-**	**670**
Assets and Liabilities					
Total segment assets	311,966	37,955	215,284	(33,115)	532,530
Total segment liabilities	216,579	27,098	195,094	(3,751)	435,020

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

IN THOUSANDS OF AUD	31 Dec 2019 $	31 Dec 2018 $
5. COMMISSION INCOME AND EXPENSE		
Upfront commission income	44,610	29,276
Trail commission income	37,335	21,476
Net present value of future trail commission receivable	57,995	27,016
Total commission income	139,940	77,768
Upfront commission expense	42,534	27,646
Trail commission expense	32,706	18,141
Net present value of future trail commission payable	54,862	25,432
Total commission expense	130,102	71,219
6. INTEREST INCOME		
Loans and advances	4,935	3,713
Deposits with other institutions	452	523
Total interest income	5,387	4,236
7. OTHER INCOME		
Service fees and residual income	768	312
Software license fee income	991	590
Flat fee income	1,082	633
Compliance fee income	924	334
Lending fees	366	182
Sponsorship income	493	727
Cash convenience fee income	214	445
Gain on disposal of government bonds	888	-
Insurance recovery (refer note 10)	2,925	-
Other	15	43
Total other income	8,666	3,266

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

IN THOUSANDS OF AUD	31 Dec 2019 $	31 Dec 2018 $
8. OPERATING EXPENSES		
Depreciation and amortisation	1,112	356
Information technology	702	642
Banking services delivery	212	175
Employee benefits	7,910	5,645
Professional services	555	515
Marketing	1,205	698
Occupancy	274	473
Other administration expenses	1,735	1,088
Total operating expenses	13,705	9,592

The Group has adopted AASB 16 with respect to operating leases with effect from 1 July 2019 utilising the modified retrospective approach. Comparative periods have not been restated, refer to Note 19 for further information.

9. INCOME TAX

The major components of income tax benefit recognised are:		
Current income tax expense	273	-
Deferred income tax expense	868	330
Income tax expense	1,141	330

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

IN THOUSANDS OF AUD	31 Dec 2019 $	30 June 2019 $
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:		
Cash at bank and on hand	17,432	19,381
Less provision for non-recovery of bailment cash	(2,925)	-
	14,507	19,381

Included in cash at bank and cash equivalents are balances relating to ATM bailment and cash in transit arrangements with ATM Co Pty Ltd and Tuff Enterprises Pty Ltd, both who have been placed into liquidation. The liquidator has not identified the location of the Company's cash totalling approximately $2,925,000. The Company is progressing a claim with its insurer for the missing cash. The Company has also engaged a national law firm to assist with this matter.

The Company has recognised a provision against the cash. In addition a receivable for the estimated insurance recovery has been recognised (refer note 11) as at the reporting date, noting however that a final determination has not been reached with the insurer with regards to the outcome of the claim.

IN THOUSANDS OF AUD	31 Dec 2019 $	30 June 2019 $
11. TRADE AND OTHER RECEIVABLES		
Net present value of future trail commissions receivables	327,357	269,361
Trade and other receivables	3,658	3,298
Insurance receivable	2,925	-
Sub-lease finance lease receivable	1,223	-
Accrued commission income	15,525	12,826
	350,688	285,485
12. OTHER FINANCIAL ASSETS		
Investments in debt securities (measured at amortised cost)	30,983	45,890
Shares in listed corporations (measured at fair value through OCI)	162	162
Shares in unlisted corporations (measured at fair value through OCI)	142	142
	31,287	46,194

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	31 Dec 2019 $	30 June 2019 $
IN THOUSANDS OF AUD		

13. LOANS AND ADVANCES

(a) Classification

	31 Dec 2019	30 June 2019
Residential loans	242,728	190,030
Personal loans	1,099	1,313
Overdrafts	470	444
Term loans	20,594	22,377
Total gross loans and advances	264,891	214,164
Add: Unamortised broker commissions	612	418
Gross loans and receivables	265,503	214,582
Provision for impairment	(319)	(259)
	265,184	214,323

During the interim period, the Group originated loans totalling $9,396,000 (2018: nil) to Bendigo & Adelaide Bank pursuant to the Receivables Acquisition & Servicing Agreement for capital management purposes.

(b) Provision for impairment

Expected credit loss provision

Opening balance at 1 July 2019	259
Credit losses provided for	60
Bad debts written off during the period	-
Closing balance at 31 December 2019	319

During the interim period, a receivable of $19,000, not pertaining to loans was written off.
Total receivable and loan impairment expense was $79,000.

(c) Credit quality – loans and advances

	31 Dec 2019	30 June 2019
Past due but not impaired		
30 days & less than 90 days	1,221	877
90 days & less than 182 days	1,547	542
182 days or more	671	575
	3,439	1,994
Impaired - mortgage loans		
Up to 90 days	-	-
Greater than 90 days	226	-
	226	-
Total past due and impaired	3,665	1,994
Neither past due nor impaired	261,226	212,170
Total gross loans and advances	264,891	214,164

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

IN THOUSANDS OF AUD	31 Dec 2019 $	30 June 2019 $
14. TRADE AND OTHER PAYABLES		
Net present value of future trail commissions payables	285,277	230,415
Trade and accrued expenses	2,747	3,158
Accrued commission payable	15,110	11,652
Lease liability (refer note 20)	4,420	-
	307,554	245,225

IN THOUSANDS OF AUD	Number of shares	31 Dec 2019 $
15. SHARE CAPITAL		
Issue capital		
Beginning of the interim period	82,415,399	99,188
Exercise of performance rights	125,000	62
	82,540,399	99,250
Equity raising costs		
Balance at the beginning of the interim period		(2,620)
Costs incurred from exercise of performance rights		(2)
		(2,622)
Share capital net of costs		96,628

IN THOUSANDS OF AUD	31 Dec 2019 $	30 Jun 2019 $

16. COMMITMENTS AND CONTINGENT LIABILITIES

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

(i) Outstanding loan commitments

	31 Dec 2019 $	30 Jun 2019 $
Loans approved but not advanced	9,276	6,187
Loan funds available for redraw	13,967	9,052
	23,243	15,239

(ii) Outstanding overdraft commitments

	31 Dec 2019 $	30 Jun 2019 $
Customer overdraft facilities approved but not disbursed	511	538

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17. 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 2019	**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	14,507	-	-	-	-	-	-
Due from other financial institutions	18,320	-	-	-	-	-	-
Accrued commission receivable	15,525						
Investment securities	30,983	-	-	-	-	-	-
Equity instruments	-	304	-	-	162	142	-
Loans and advances	265,184	-	-	-	-	-	-
Sub-lease finance lease receivable	1,223	-	-	-	-	-	-
Other receivables	6,584	-	-	-	-	-	-
Total	352,326	304	-	-	162	142	-
Financial liabilities:							
Deposits	306,830	-	-	-	-	-	-
Accrued commission payable	15,110	-	-	-	-	-	-
Other payables	2,747	-	-	-	-	-	-
Lease liabilities	4,420	-	-	-	-	-	-
Total	329,107	-	-	-	-	-	-

17. FINANCIAL INSTRUMENTS (CONT'D)

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

30 June 2019	**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	19,381	-	-	-	-	-	-
Due from other financial institutions	32,344	-	-	-	-	-	-
Accrued commission receivable	12,826	-	-	-	-	-	-
Investment securities	45,890	-	-	-	-	-	-
Equity instruments	-	304	-	-	162	142	-
Loans and advances	214,323	-	-	-	-	-	-
Other receivables	2,343	-	-	-	-	-	-
Total	327,107	304	-	-	162	142	-
Financial liabilities:							
Deposits	287,126	-	-	-	-	-	-
Accrued commission payable	11,652	-	-	-	-	-	-
Creditors and other payables	3,158	-	-	-	-	-	-
Total	301,936	-	-	-	-	-	-

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17. 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.

18. 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 2019 $	31 Dec 2018 $
Profit/(Loss) for the period ($'000s)	2,999	670
	Number	**Number**
Weighted average number of ordinary shares used in the calculation of basic earnings per share:	82,433,159	58,366,601
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	83,776,438	59,601,164
Basic earnings per share (cents)	3.64	1.14
Diluted earnings per share (cents)	3.58	1.12

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. SIGNIFICANT ACCOUNTING POLICIES ADOPTED DURING THE PERIOD

A. Adoption of AASB 16 Leases

The Group leases a number of branch and office premises. The leases typically run for a period of up to 5 years, and include fixed increases in lease payments or are referenced to CPI. Previously, these leases were classified as operating leases under AASB 117.

The Group has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117. In implementing AASB 16, the Group has elected to recognise the right-of-use asset equal to the lease liability, adjusted for lease balances previously recognised on the Group's balance sheet as at transition date. Lease liabilities were determined by applying a weighted average incremental borrowing rate of 5.2%.

Information about leases for which the Group is a lessee is presented below.

i. Right-of-use assets

Right-of-use assets relate to leased branch and office premises that are presented within property, plant and equipment.

IN THOUSANDS OF AUD	**Branch and office premises $**
Balance recognised at 1 July 2019 upon adoption of AASB 16	3,391
Depreciation charge for the period	(423)
Balance at 31 December 2019	2,968

ii. Operating leases – comparative period

At 31 December 2018, the future minimum lease payments under non-cancellable operating leases were payable as follows:

IN THOUSANDS OF AUD	**31 Dec 2018 $**
Due not later than one year	765
Due later than one year and not later than five years	5,553
Greater than five years	214
	6,532

The lease liability recognised at transitional date is materially consistent to the lease commitments disclosed in the 30 June 2019 financial report, when remeasured on a discounted basis. Differences arise due to the exclusion of leases expiring within 12 months of the transitional date.

IN THOUSANDS OF AUD	**$**
Operating lease commitments at 30 June 2019 as disclosed in the Group's consolidated financial statements	5,838
Discounted using the incremental borrowing rate at 1 July 2019	5,152
Recognition exemption for leases with less than 12 months of term remaining at transition date	(146)
Lease liabilities recognised at 1 July 2019	5,006

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. SIGNIFICANT ACCOUNTING POLICIES ADOPTED DURING THE PERIOD (CONTINUED)

iii. Sub-lease finance lease receivable

The Group sub-leases portions of excess office space to third parties in its capacity as lessor.

2019 – Leases under AASB 16

IN THOUSANDS OF AUD	**31 Dec 2019 $**
Balance recognised at 1 July 2019 upon adoption of AASB 16	1,378
Repayments	(155)
Balance at 31 December 2019	1,223

Finance lease receivables

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

Gross investment in finance leases, receivable

IN THOUSANDS OF AUD	**31 Dec 2019 $**
Less than one year	376
Between one and two years	376
Between two and three years	376
Between three and four years	252
	1,380
Unearned finance income	(157)
Net investment in finance leases	1,223

iv. Lease liability

The Group has recognised lease liabilities based on the modified retrospective approach as of 1 July 2019 in relation to its branch and office leases. A reconciliation of the lease liability at 31 December 2019 is set out below

IN THOUSANDS OF AUD	**$**
Balance recognised at 1 July 2019 upon adoption of AASB 16	5,006
Repayments	(586)
Balance at 31 December 2019	4,420

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. SIGNIFICANT ACCOUNTING POLICIES ADOPTED DURING THE PERIOD (CONTINUED)

v. Accounting policy for leases

The Group has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117 in accordance with the accounting policies contained in the Group's 30 June 2019 Annual Financial Report.

Policy applicable from 1 July 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains a lease if the contact conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in AASB 16. This policy is applied to contracts entered into (or changed) on or after 1 July 2019.

Group acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative stand-alone price.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the lease commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:
- Fixed payments, including in-substance fixed payments; or
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets within 'property, plant and equipment' and lease liabilities in 'other liabilities' in the Consolidated Statement of Financial Position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. SIGNIFICANT ACCOUNTING POLICIES ADOPTED DURING THE PERIOD (CONTINUED)

Group acting as a lessor

At inception or on modification of a contact that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Group acts as lessor, it determines at lease inception whether the lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

20. 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

21. EVENTS SUBSEQUENT TO BALANCE DATE

On 7 February 2020, Bendigo & Adelaide Bank Limited advised their approval of an extension of the Group's Receivables Acquisition & Servicing Agreement to February 2021. Additionally, BEN advised the conditional approval of an increase in the facility limit from $60 million to $90 million, subject to final agreement on certain programme parameters being reached.

On 18 February 2020, the Company completed a placement to sophisticated investors through the issue of 11,700,000 fully paid shares at a price of $0.60 per share, raising $7,020,000 (before costs).

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 2019 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 2019 and of its performance for the half-year ended on that date.

   (ii) complying with Accounting Standards Australian 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 28th day of February 2020
Sydney

Independent Auditor's Review Report

To the shareholders of BNK Banking Corporation Limited

Report on the Interim Financial Report

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 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 2019 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:

- Condensed consolidated statement of financial position as at 31 December 2019
- Condensed consolidated statement of profit or loss and other comprehensive income, Condensed consolidated statement of changes in equity and Condensed consolidated statement of cash flows for the half-year ended on that date
- Notes 1 to 21 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.

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 is free from material misstatement, whether due to fraud or error.

Auditor’s responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim 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 Interim 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 2019 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*. As auditor of BNK Banking Corporation Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim 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.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

KPMG

Nicholas Buchanan
Partner

Sydney
28 February 2020