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

ASX Release, 12 November 2020

CORRECTION TO ANNUAL FINANCIAL REPORT

BNK Banking Corporation Limited (ASX:BBC) ("BNK" or "the Group") advises the Group's Annual Financial Report lodged with the ASX on 28 August 2020 inadvertently omitted the auditor's report.

A full copy of the corrected Annual Financial Report follows inclusive of the auditor's report set out on pages 79 to 84. BNK apologises for this oversight.

This announcement has been authorised for release to the ASX by the Company Secretary.

ENDS

Investor Enquiries

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Company Secretary

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Who is BNK Banking Corporation Limited?

BNK Banking Corporation Limited (BNK) is a diversified financial services company with two key operating divisions in banking and mortgage broking aggregation:

Banking

The company has operated as an APRA-regulated authorised deposit-taking institution (ADI) for over 37 years. As such our customers benefit from the Australian government deposit guarantee scheme for deposits up to $250,000.

The bank provides simple and easy to understand deposit accounts, personal loans and mortgages under a number of brands: Goldfields Money, which is used in the Goldfields region of Western Australia, complemented by the Better Choice Home Loans brand, distributed via mortgage brokers nationally.

BNK Bank plans to offer a new range of product under the BNK brand later this financial year. The Company is continuing to develop its new digital banking platform which will enable it to deliver a broad range of banking products directly to customers, as well as through third party intermediaries across Australia.

Mortgage Aggregation

The Aggregation division, operating as Finsure, provides one of the largest distribution networks in the country as well as valuable market insights that assist BNK with product development. As at 30 September 2020 the business services 1,816 mortgage brokers and manages a loan book in excess of $47.5bn.

This unique combination allows BNK to develop competitive products that meet its changing customer needs, leveraging its low-cost, technology-driven model. BNK is focused on becoming a challenger bank of scale through building its product portfolio, growing its diversified distribution network and pursuing API-enabled partnering opportunities.

The Company is listed on the Australian Securities Exchange (ASX:BBC).

You can read more about us at www.bnk.com.au and www.finsure.com.au.

BNK Banking Corporation Limited
Annual Financial Report

ABN: 63 087 651 849

30 June 2020

Contents

CORPORATE INFORMATION

ACN: 087 651 849

Directors

Mr. Jon Sutton	(Chairman and Non-Executive Director)
Mr. Jon Denovan	(Non-Executive Director)
Mr. Peter Hall	(Non-Executive Director)
Mr. Don Koch	(Interim Chief Executive Officer and 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: +(618) 9438 8888

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

Share Registry:
Advanced Share Registry
110 Stirling Hwy
Nedlands WA 6009
Tel +(618) 9389 8033
Fax +(618) 6370 4203

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

Auditors:
KPMG
300 Barangaroo Avenue
Sydney NSW 2000

Website Address:
www.bnk.com.au

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

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity comprising BNK Banking Corporation Limited ("BNK" or the "Company") and the entities it controlled ("the Group") together with the consolidated financial report for the year ended 30 June 2020 and the auditor's report thereon.

DIRECTORS

The details of the Company's Directors in office at any time during or since the end of the year up to the date of this report are as follows. Directors were in office for the entire period unless otherwise stated*.*

Current directors

Mr Jon Sutton	Chairman and Non-Executive Director (appointed director 22 October 2019 and Chairman from 26 November 2019)
Mr Peter Hall	Non-Executive Director
Mr Don Koch	Interim Chief Executive Officer and Director (Interim Chief Executive Officer from 25 May 2020)
Mr Jon Denovan	Non-executive Director (appointed 2 September 2019)
Mr John Kolenda	Executive Director

Former directors

Mr Peter Wallace	Chairman and Non-Executive Director (resigned 26 November 2019)
Mr Derek LaFerla	Non-Executive Director (resigned 30 August 2019)
Mr Simon Lyons	Managing Director (resigned 25 May 2020)

Jon Sutton (Chairman and Non-Executive Director)

Mr Sutton was appointed a director on 22 October 2019. He has more than 25 years of experience. Jon was the CEO and Managing Director of the Bank of Queensland (BOQ) and retired in 2018. Prior to joining BOQ he served as CEO and Managing Director of Bankwest, and was part of the acquisition team that purchased Bankwest from its parent HBOS. Jon has also held senior roles in CBA as the Head of Agribusiness and has over ten years' experience in markets experience having worked in senior roles in CBA's Global Markets Division. Mr Sutton is a Director of Sydney Football Club and an Advisory Board Member to SendFX.

Mr Sutton was appointed Chairman following the Company's 2019 Annual General Meeting, is the Chair of the Remuneration Committee and a Member of the Audit Committee, Credit Committee and Risk & Compliance Committee.

Peter Hall (Non-Executive Director)

Mr Hall was elected as a Director in November 2015 and is an experienced financial services industry professional. Previous Board and industry appointments include: Non-Executive Director of BLSSA Pty Ltd (the licensing Board for Advantedge Financial Services, a NAB subsidiary), Chair of the CoreLogic RP Data sponsored Residential Valuation Industry Advisory Group, Ministerial Advisory Board Member for NSW Housing Minister and Chairman and Council Member of the Lenders Mortgage Insurance sub-committee. Mr Hall has also held the senior executive position of Country Executive of Genworth Financial Aust. & NZ and Managing Director of Genworth Financial Mortgage Insurance Aust. & NZ.

Mr Hall holds a Graduate Diploma of Management, has completed Executive Management Programs at GE's global management college, a former Senior Associate of the Financial Services Institute of Australia and has received a Distinguished Service Award from the Australian Securitisation Forum.

Mr Hall is the Chair of the Risk & Compliance Committee, Chair of the Board Credit Committee and is also a Member of the Audit Committee and Remuneration Committee.

Don Koch (Interim Chief Executive Officer and Director)

Mr Koch was appointed a Director on 11 June 2019. Mr Koch was CEO of ING Bank in Australia from 2009 to 2012 before transferring to become CEO of ING Bank Italy from 2012 to 2016. He most recently ran a program for ING Asia as a joint venture with a large local bank within China, the largest digital economy in the world. He was the former CIO and part of the team that launched ING Direct in Australia. Mr Koch is a Governor on the Cerebral Palsy Association Research Foundation, Advisor to the UTS Business School Industry Advisory Board, Director of Target Fifteen and an Advisory Board Member of Glaucoma Australia ICT Committee.

He spent the early part of his career in various roles at the Commonwealth Bank of Australia and Citibank Australia, and has completed the International Directors Program with INSEAD in Switzerland. Mr Koch was appointed Interim Chief Executive Officer on 25 May 2020 following the resignation of Mr Simon Lyons.

DIRECTORS' REPORT (continued)

Jon Denovan (Non-Executive Director)
Mr Denovan was appointed a Director on 2 September 2019. Mr Denovan is a Special Counsel with leading national law firm, Dentons, and is a leading industry authority on regulation and compliance for the mortgage industry. He is regularly consulted by the Commonwealth Government and industry bodies on matters relevant to the National Consumer Credit Protection Act, National Credit Code, best interests obligations, amongst others.

Mr Denovan is the Chair of the Audit Committee, and a member of the Risk & Compliance Committee and Credit Committee.

John Kolenda (Executive Director)
Mr Kolenda was appointed a Director on 13 March 2018. Mr Kolenda is the Managing Director of Finsure Group, and has extensive experience in the mortgage broking and aggregation sector. Mr Kolenda was the General Manager Sales & Distribution at Aussie Home Loans for ten years from 1994, before founding X Inc, which was a successful mortgage originator before its merger with the mortgage broking operations of Ray White in 2007. Mr Kolenda founded several businesses before launching Finsure Group in 2011. Mr Kolenda co-founded and chairs Aura Group Pty Ltd, a boutique corporate advisor and investment house. Aura Group has more than $300 million in assets under management and advice.

During the last three years he has served as a Director of the following listed companies:

- The Agency Group Australia Limited – appointed 19 December 2016 and resigned 20 December 2019
- IBuyNew Group Limited – appointed 1 February 2013 and resigned 22 March 2017

COMPANY SECRETARY

Malcolm Cowell
Mr Cowell was appointed as Company Secretary on 1 March 2017 and was the Chief Financial Officer of the Company until 10 December 2018. He is a Chartered Accountant with 30 years' experience in banking and professional services, and continues to serve in the Group as General Manager, Finance.

PRINCIPAL ACTIVITIES
The BNK Group is a vertically integrated banking institution regulated by the Australian Prudential Regulation Authority ("APRA") offering retail banking, mortgage management and broker aggregation services.

OPERATING AND FINANCIAL REVIEW

Key operating and financial metrics for the period are as follows:

Key Metric *Amounts in thousands of AUD*	**30 June 2020 Statutory**	**30 June 2019 Statutory**	**Movement % Statutory**
Net interest revenue	4,813	3,451	39.5%
Net-commission income	19,129	17,398	9.9%
Non-interest revenue	14,441	9,392	53.8%
Net statutory profit after tax	5,324	3,614	47.3%
Total on balance sheet assets	839,287	646,142	29.9%
On balance sheet loans	283,561	214,323	32.3%
Loans managed off balance sheet	46,804	37,528	24.7%
Wholesale managed loan book	2,299,524	2,340,000	(1.7%)
Aggregation commission loan book	45,472,632	38,091,000	19.4%
Total loan book	48,102,521	40,629,851	18.2%
Deposits	345,791	287,126	20.4%
Other key banking metrics			
Ave. Net Interest Margin	1.61%	1.95%	(17.4%)
Capital adequacy ratio	21.22%	20.35%	(0.60%)

* Refer to the reconciliation to statutory profit/(loss) below

The Group has recorded statutory net profit after tax for the year ended 30 June 2020 (FY20) of $5,324,000 (2019: profit of $3,614,000), a 47.3% increase over the corresponding period (a 63.1% increase on a proforma[1] basis).

[1] *The merger between the Company and Finsure occurred on 17 September 2018. Proforma refers to the profit/loss result had the merger occurred on 1 July 2018.*

DIRECTORS' REPORT (continued)

Sound result despite COVID-19

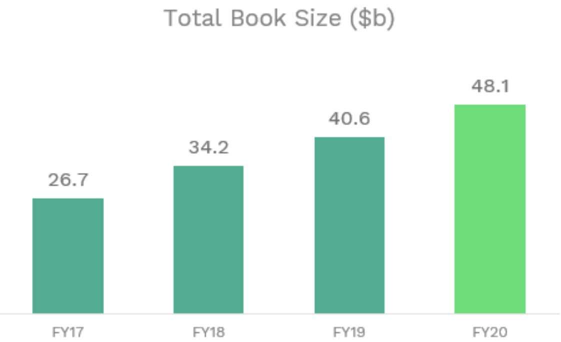
The Group's result for FY20 represents a sound outcome in light of the impact of COVID-19 experienced by the Australian economy. Record settlements achieved by Finsure and the Bank demonstrated the value proposition offered to brokers and retail customers alike, whilst settlement volumes for Better Choice reflected the shift in focus to higher margin on balance sheet loans and the impact of tightening credit conditions imposed by its external funding partners. Repayment deferrals for BNK's banking customers as at 30 June 2020 were significantly below system levels at 5%, compared to 10% reported by APRA and reflects the quality and diversification of the portfolio. The increase in NPAT demonstrates the Group's strategy is yielding increased operating leverage.

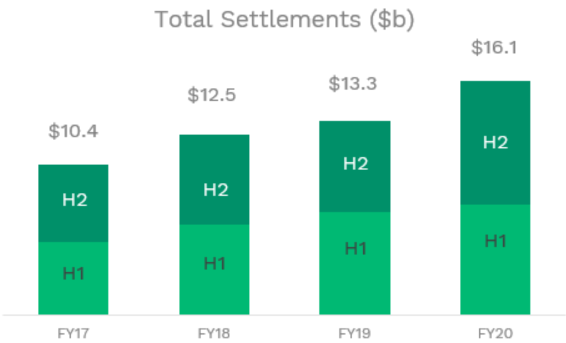
Closure of the Bank's two branches in regional Western Australia was completed in Q320 and the Group is now a branchless bank pursuing a fully digital banking strategy, complemented by a broker led lending distribution capability through the Finsure and Better Choice brands.

Record settlements and loan-book growth

Record Finsure settlements of $15.6b represent a 23% increase and $129m in new loans onto the banking balance sheet, represents a year-on-year growth of +73%.

Total loan-book grew to an overall balance of $48.1b, or +18% growth and Total Bank lending assets grew from $214m in FY19 to $284m in FY20 (+33%). Additionally, the number of loan writers grew 1,740 importantly driving further diversification of revenue streams for Finsure, whilst Better Choice distribution network increased to a potential 6,500+ brokers after joining the PLAN Australia lending panel.





As the effects of COVID-19 became more apparent to the Australian economy, BNK adopted a prudent response and took steps to deliberately moderate loan originations through Q420. BNK has slowly reactivated loan originations from June 2020 onwards and the pipeline is indicating improved opportunities to cautiously grow the on balance sheet loan portfolio.

Net income for the period grew +27% reflecting healthy portfolio growth. Net commission income grew +10% for the period reflecting continued growth in Finsure's trail commission loan book. Aggregation service fees increased +39% as the shift in commission model to fee based income streams continues. Service fees and residual income received by Better Choice and the BNK increased +22%. Net interest margin declined to 1.61% (2019: 1.95%) as a result of the two official rate cuts passed on during the year, and elevated liquidity levels held following the onset of COVID-19.

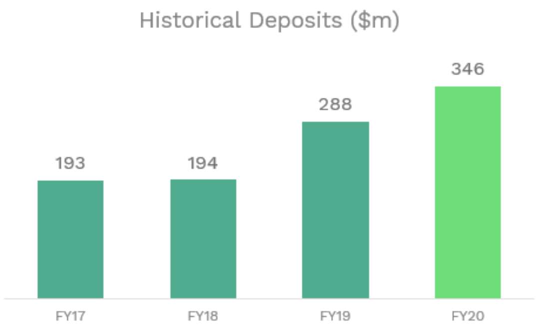
The Bank's credit quality has been maintained at a sound level with a loss coverage ratio (bad debt provisions as a portion of lending asset-base) of 25bps, an increase from 12bps in FY19 as additional overlays were applied to modelled outcomes. There were no lending write-offs in FY20 however loss provisions increased as a result of the growth in the loan book. BNK's close contact with customers and proactive approach has led to a number of customers returning to full performing status ahead of agreed deferral timeframes. The Group has continued its objective of reducing portfolio concentration from Western Australia (WA), as well as diversifying origination channels with the on balance sheet for WA reducing from 67% in FY19 to 46% at 30 June 2020.

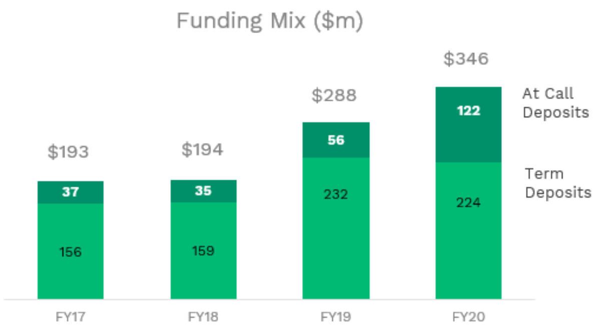
DIRECTORS' REPORT (continued)

Funding effectively for growth
Deposits comprise at-call accounts and term deposits which are sourced directly from retail customers and through various deposit brokers. The Bank continues to successfully achieve a key objective to increase its growing the Bank's deposit base, and transform its funding mix. Transactional accounts now account for 36% of total deposits and the Bank leveraged its Mozo awards through promotion of the Retire Style and Cash Management Accounts through new platforms, contributing to this funding diversification. As part of the Commonwealth Government's industry support response to COVID-19, BNK became eligible to $8m of low cost funding under the RBA's Term Funding Facility. This amount has been subsequently drawn down and is repayable in August 2023.

Liquidity investments and other assets
The Group's cash and liquidity investments predominantly comprise physical cash, at call deposits, negotiable certificates of deposits, government (including semi-government) bonds, and floating rate notes. Liquidity management falls under the remit of Asset & Liability Committee (ALCO), which ensures the Group operates within its policy settings. ALCO also reviews and approves changes in product level interest rates and the implementation of new products. BNK maintained elevated liquidity levels through H220, which are progressively being reduced which is having a positive impact to the overall cost of funds (COF). For FY21, BNK is targeting COF sub 1%.

Investment in technology continues to be critical to the Group. Successful completion and rollout of the innovative Infynity CRM platform was completed in Q220. Infynity is an industry leading cloud based CRM with open API connectivity enabling Finsure's marketplace to integrate with more products and services offered by 3rd parties. Better Choice continued to consolidate legacy books onto its new Loanworks platform and BNK continued to engage with Temenos for delivery of its R18 core banking system upgrade.





Operating expenses
The Group continued to invest in its people and processes, with operating expenses increasing 17% to $27.8m. This included redundancy and closure costs for the two branches in regional Western Australia, legal costs associated with the investigation and process of the ATM insurance claim, and termination costs. The Group responded to the impact of COVID-19 through temporary board and executive salary reductions, and a critical review of operating expenses. Disciplined cost management processes have been reinforced across the Group and discretionary expenditure curtailed where possible without undue detriment to the business.

Capital
The Group's policy is to maintain a minimum capital adequacy ratio (CAR) as per APRA required levels. The CAR at 30 June 2020 of 21.22% presents the Group with further growth opportunity for both on-balance sheet lending assets as well as investing in other assets that provide means for the Group to generate organic capital.

The Group completed a placement in February 2020, raising $7m of new share capital, and approval has been received from APRA to issue a Tier 2 hybrid equity instrument, which will provide funding diversity once completed. The Group has recently appointed Bell Potter as Corporate Advisor to assist with raising the Tier 2 hybrid instrument.

DIRECTORS' REPORT (continued)

DIVIDENDS

No dividend was paid or declared by the Company in the period and up to the date of this report. The Directors do not recommend that any amount be paid by way of dividend, for the financial year ended 30 June 2020.

INTEREST IN SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the Directors hold shares of the Company in their own name or a related body corporate, as notified by the Directors to the ASX in accordance with S205G(1) of the *Corporations Act 2001* as follows:

	Number of ordinary shares	Number of options or performance rights over ordinary shares
Jon Sutton	60,000	-
Don Koch	-	-
Peter Hall	72,034	-
Jon Denovan	-	-
John Kolenda	13,302,952	-

Interests in ordinary shares noted above were acquired by the Directors at their own expense and do not form part of their remuneration.

SHARE OPTIONS AND RIGHTS OVER SHARES

The Company has 1,791,666 performance rights on issue to certain key management personnel and employees. The performance rights entitle the holder to a grant of shares subject to certain conditions being met. Refer to the Remuneration Report for further details.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has paid or agreed to pay a premium in relation to a contract insuring the Directors and Officers listed in this report against those liabilities for which insurance is permitted under S199B of the *Corporations Act 2001*. The terms of the policy prohibit disclosure of details of the amount of the insurance cover and the premium paid.

The Company has not otherwise, during or since the relevant period, indemnified or agreed to indemnify an Officer or auditor of the Company or of any related body corporate against a liability incurred as such an Officer or auditor.

MEETINGS OF DIRECTORS

The number of Board and Committee meetings held during the financial year, and attendance by each Director is as follows:

	Board		Audit Committee		Risk & Compliance Committee		Remuneration Committee		Credit Committee	
	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible
J Sutton	17	18	4	4	3	3	2	2	2	2
D Koch	21	21	5	5	4	3	2	2	2*	2*
P Hall	21	21	5	5	4	4	5	5	2	2
J Denovan	21*	19	5	4	3	3	-	-	1	2
J Kolenda	19	21	-	-	-	-	1*	-	-	-
P Wallace	5	5	2	2	1	1	3	3	-	-
D LaFerla	2	2	1	1	-	-	1	1	-	-
S Lyons	17	17	4*	4*	3*	3*	4*	4*	-	-

* Attendance by invitation.

DIRECTORS' REPORT (continued)

CHANGES IN THE STATE OF AFFAIRS

Except for the matters discussed above and elsewhere in this Directors' Report, in the opinion of the Directors, there were no other significant changes in the state of affairs of the Company that occurred during the financial year under review.

EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 14 July 2020 the Company received partial indemnification from the insurer in respect of $1,197,750 of the ATM fraud claim.

On 7 August 2020, the Company announced the appointment of Mr. Brett Morgan as Chief Executive Officer of the Banking and Wholesale divisions with Mr. John Kolenda to assume the position of Chief Executive Officer of the Aggregation divisions.

On 28 August 2020, the Company issued 450,000 performance rights to certain executives and employees.

Other than the matters noted above, in the opinion of the Directors there has not arisen in the period between the end of the financial year and the date of this report any other material item, transaction or event that is likely to significantly affect the operations of the Company.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under S237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

ENVIRONMENTAL REGULATIONS

The Company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

On 14 July 2020 the Company received partial indemnification from the insurer in respect of $1,197,750 of the ATM fraud claim. On 11 August 2020, the Company submitted the remaining information to its insurer in relation to the balance of the claim. The outcome of the claim has not been finalised at the date of this report.

Since balance date, the number of customers subject to COVID-19 repayment deferral arrangements has decreased with approved deferral arrangements now comprising 4.5% of the loan portfolio, a reduction from 5.0% at 30 June 2020.

No other matter, circumstance or likely development in the operations has arisen since the end of the financial year that has significantly affected or may significantly affect:

(i) The operations of the Company;
(ii) The results of those operations; or
(iii) The state of affairs of the Company

in the financial years subsequent to this financial year.

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, KPMG. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 and APES 110 Code of Ethics for Professional Accountants. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Details of the amounts paid to the auditor of the Company, KPMG for audit and non-audit services for the year ended 30 June 2020:

Non audit services	$
Accounting and tax opinions	50,000
Audit and assurance services	
Audit and review of financial statements	292,270
Regulatory assurance services	108,000
Total audit and assurance services	400,270
Total amounts paid to KPMG	**450,270**

AUDITORS INDEPENDENCE DECLARATION

The lead auditor's independence declaration provided in accordance with S307C of the Corporations Act 2001 is set out on page 22 and forms part of the Directors' report for the financial year ended 30 June 2020.

The Remuneration Report commencing on the following page forms part of this Directors' Report.

ROUNDING OFF

The Group is 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 the nearest thousand dollars, unless otherwise stated.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

This Remuneration Report for the year ended 30 June 2020 outlines the remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act. The Remuneration Report is presented under the following sections:

1. Introduction
2. Remuneration governance
3. Executive remuneration arrangements
   A. Remuneration principles and philosophy
   B. Approach to setting remuneration
   C. Detail of incentive plans
4. Executive remuneration outcomes for 2020 (including link to performance)
5. Executive contracts
6. Non-executive director remuneration (including statutory remuneration disclosures)
7. Additional disclosures relating to options, performance rights and shares
8. Loans to key management personnel and their related parties
9. Other transactions and balances with key management personnel and their related parties
10. Remuneration incentives approved subsequent to balance date

1. Introduction
The Remuneration Report details the remuneration arrangements for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

The table below outlines the KMP of the Group and their relevant changes during the year ended 30 June 2020:

Non-Executives

Director	Position	Appointment date	Resignation date
Jon Sutton	Non-Executive Chairman	22 October 2019	-
Don Koch[1]	Non-Executive Director	11 June 2019	-
Jon Denovan	Non-Executive Director	2 September 2019	-
Peter Hall	Non-Executive Director	13 November 2015	-
Peter Wallace	Non-Executive Chairman	8 August 2014	26 November 2019
Derek La Ferla	Non-Executive Director	16 November 2015	30 August 2019

[1] Non-Executive Director until 25 May 2020. Mr Koch is currently fulfilling the role of Interim Chief Executive Officer. Mr Brett Morgan will commence on 12 October 2020 as Chief Executive Officer of the Banking and Wholesale divisions, and Mr Koch will revert to his role as Deputy Chairman and Chair of the Audit Committee.

Executives

Executive	Position	Appointment date	Resignation date
Don Koch	Interim Chief Executive Officer	26 May 2020	-
John Kolenda	Executive Director and Chief Executive Officer of Finsure	13 March 2018	-
Allan Savins[1]	General Manager, Banking & Wholesale	17 September 2018	-
Simon Bednar[1]	General Manager, Aggregation	17 September 2018	-
Jussi Nunes	Chief Financial Officer	10 December 2018	-
Steve Ellis	Chief Risk Officer	17 July 2016	-
Lisa Stedman	Chief Operating Officer	10 July 2019	-
Simon Lyons	Managing Director	18 January 2016	25 May 2020

[1] Key Management Personnel from 1 July 2019

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

2. Remuneration governance

The Board of Directors is responsible for determining and reviewing compensation arrangements for the executive team. The Remuneration Committee assists the Board in meeting its responsibilities to ensure that remuneration practices are appropriate with regards to the Group's size and scale of operations, and to ensure that the Group can continue to attract and retain high caliber individuals to key executive roles.

Remuneration Committee

The Remuneration Committee comprises three Non-Executive Directors (NEDs) with all being independent. The Remuneration Committee meets periodically and is required to make recommendations to the board on matters related to the remuneration arrangements for NEDs and executives. The Chief Executive Officer (or previously Managing Director) attends certain Remuneration Committee meetings by invitation, where management input is required. Executives are not present during any discussions related to their own remuneration arrangements.

The Board approves the remuneration arrangements of the executive leadership team and all awards including incentive plans and other employee benefit programs. The Board also sets the aggregate remuneration of NEDs, which is then subject to shareholder approval, and NED fee levels.

Further information on the remuneration committee's role, responsibilities and membership can be found on the company website at https://bnk.com.au/investor-centre/corporate-governance/.

Use of remuneration consultants

To ensure the Remuneration Committee is fully informed when making remuneration decisions, the Remuneration Committee may seek external remuneration advice. During the year, the Remuneration Committee engaged BDO Reward Pty Ltd (BDO) to review the Group's remuneration framework, and provide advice in relation to remuneration benchmarking, variable remuneration schemes and balanced scorecard structures. This engagement was undertaken given the significant change in the Group's structure over the preceding two years and to ensure the Group would comply with the requirements of the Banking Executive Accountability Regime (BEAR) that now applies to the Group.

BDO was paid $101,750 for these services.

The engagement by the Remuneration Committee was based on an agreed set of protocols that would be followed by BDO, members of the Remuneration Committee and members of the key management personnel for the way in which remuneration recommendations would be developed and provided to the Board.

The protocols included the prohibition of BDO providing advice or recommendations to key management personnel prior to the advice or recommendations being provided to the Remuneration Committee and not unless BDO had approval from the Remuneration Committee. These arrangements were implemented to ensure that BDO would be free to carry out its work free from undue influence by members of the key management personnel about whom the recommendations may relate.

The Board is satisfied that the recommendations by BDO were free from undue influence of members of the key management personnel about whom the recommendations may relate. The recommendations and advice provided by BDO are being considered by the Remuneration Committee and Board for implementation in the 2021 financial year.

Remuneration Report approval at 2019 Annual General Meeting (AGM)

The 2019 Remuneration Report received positive shareholder support at the 2019 AGM with a vote of 98%.

3. Executive remuneration arrangements

3.1 Remuneration principles and philosophy

The objective of the Group's remuneration strategy is to attract and retain executives who will create shareholder value and fairly and responsibly reward them for performance. The Board believes it is critical to consider how long-term sustainable value is created in the Group and link remuneration structures to this value creation. The Group's remuneration policy is also intended to encourage behaviours that support an improvement in the financial performance of the business over time, sound risk management practices and positive customer service experiences. To this end, the Group applies the following principles to its remuneration framework:

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

- Provide competitive rewards to attract and retain high-caliber people;
- Link executive rewards to shareholder value; and
- Provide for a significant proportion of the executive remuneration to be "at risk" – that is, dependent upon meeting predetermined performance indicators.

In accordance with best practice corporate governance, the structure of NED remuneration is separate and distinct from executive remuneration (refer to section 6 of this Remuneration Report for information on NED remuneration).

Remuneration is comprised of three distinct components within BNK, these are described below:

Remuneration component	Vehicle	Purpose	Link to performance
Fixed remuneration	Represented by total employment cost (TEC). Comprises base salary, superannuation contributions and other benefits.	To provide competitive fixed remuneration set with reference to role, market and experience.	Group and individual performance are considered during the annual remuneration review.
Short term performance based incentive (STI)	Paid in cash or performance rights.	Rewards executives for their contribution towards achievement of Company outcomes, as well as their performance against individual key performance indicators (KPIs).	Linked to other internal financial measures, strategic objectives, risk management, compliance and leadership.
Long term incentive plan (LTI)	Performance rights.	Rewards executives for their contribution to the creation of shareholder value over the longer term.	Vesting of incentive is dependent on achieving key strategic objectives, including implementation of products distribution arrangements, shareholder returns and corporate transactions.

3.2 Approach to setting remuneration
The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and aligned with market practice of entities of a similar size, nature and complexity.

Remuneration levels are considered annually through a remuneration review that considers the performance of the Group and individual, and the broader economic environment.

3.3 Detail of incentive plans

Short-term incentive (STI)
In determining the extent of any performance based incentive the Board assesses the achievement of an individual's performance in context of the overall Group result. Incentives are awarded in accordance with the requirements of the Banking Executive Accounting Regime (BEAR). The BEAR was implemented in Australia to establish clear and heightened expectations of accountability for directors and executives of Authorised Deposit-taking Institutions, and to ensure there are clear consequences in the event of a material failure to meet those expectations. BEAR applies to BNK from 1 July 2019 and results in a proportion of variable remuneration for a year being deferred for a period of 4 years from grant date.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

Long-term incentive (LTI)
LTI awards will be made to executives in order to align remuneration with the creation of shareholder value over the long-term. As such, LTI awards are only made to executives and other key talent who have an impact on the Group's performance against the relevant long-term performance measure.

Shareholders of the Company approved the continuation of the BNK Equity Incentive Plan ("the Plan") at the 2019 Annual General Meeting held on 26 November 2019. Pursuant to the terms of the Plan, executives may be offered performance rights that entitle the executive to the Company delivering fully paid ordinary shares, either issued by the Company or acquired on-market, at the election of the Board.

Termination and change of control provisions
Where a participant ceases employment prior to their award vesting due to resignation or termination for cause, awards will be forfeited unless otherwise agreed by the Board. Where a participant ceases employment for any other reason, they may retain a portion of the unvested benefit pro-rated to reflect participant's period of service during the LTI grant performance period. These unvested benefits only vest subject to meeting the relevant LTI performance measures, subject to the Board's discretion.

In the event of a change of control of the Group, the performance period end date will generally be brought forward to the date of the change of control and awards will vest subject to performance over this shortened period, subject to ultimate Board discretion.

Hedging of equity awards
The Group has a policy prohibiting executives from entering into arrangements to protect the value of the equity awards. The prohibition includes entering into contracts to hedge their exposure to options awarded as part of their remuneration package.

4.1 Executive remuneration outcomes for 2020 (including link to performance)

Group performance and its link to short-term incentives
In considering the Group's performance and benefits for shareholder wealth, the remuneration committee has regard to the following:

	2020	2019	2018	2017	2016
Profit/(loss)	5,324,000	3,614,000	(406,000)	(996,000)	(95,000)
Dividends paid	Nil	Nil	Nil	Nil	Nil
Share price at balance date	$0.43	$0.64	$1.28	$1.00	$0.91
Return on capital employed	4.70%	3.60%	(1.65%)	(4.93%)	(0.56%)

Profitability is one of the financial performance targets considered in setting remuneration for executives, and has been calculated in accordance with Australian Accounting Standards. Performance to budget is another key measure considered by the BNK Board when appropriate to the business objectives.

During the year ended 30 June 2020, the fixed remuneration of the Group's Board and executive leadership team was reduced by 20% on a temporary basis in response to the impact of COVID-19 on the Group. This initiative was adopted to maximise the Group's ability to retain its valued team of employees and in order to ensure the Group was well positioned to come out of COVID-19 and progress its growth objectives strongly.

Subsequent to balance date, the Remuneration Committee considered and the Board approved recommendations for remuneration outcomes for members of the executive leadership in relation to the year ended 30 June 2020 as set out in section 10 of the Remuneration Report.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

4.1 Remuneration of key management personnel

			Short-term benefits				Post-employment	Other long term	Shared-based payments	Termination	Total	Performance related
		Salary & fees	STI (A)	Cash bonus	Non-monetary benefits (B)	Total	Superannuation	Long service leave	LTI (C)			
		$	$	$	$	$	$	$	$	$	$	%
Executives	**Year**											
Don Koch[1]	**2020**	**33,720**	**-**	**-**	**-**	**33,720**	**3,203**	**-**	**-**	**-**	**36,923**	**0%**
John Kolenda	**2020**	**627,000**	**-**	**-**	**15,000**	**642,000**	**-**	**-**	**-**	**-**	**642,000**	**0%**
	2019	518,833	-	-	11,792	530,625	-	-	-	-	530,625	0%
Jussi Nunes[2]	**2020**	**344,846**	**-**	**25,000**	**7,500**	**377,346**	**32,760**	**834**	**-**	**-**	**410,941**	**6%**
	2019	194,209	-	-	-	194,209	17,484	667	-	-	212,360	0%
Steve Ellis	**2020**	**223,385**	**-**	**-**	**-**	**223,385**	**21,222**	**171**	**27,140**	**-**	**271,918**	**10%**
	2019	218,574	-	50,000	-	268,574	24,190	1,126	131,194	-	425,084	43%
Lisa Stedman[3]	**2020**	**282,692**	**-**	**-**	**-**	**282,692**	**26,856**	**-**	**-**	**-**	**309,548**	**0%**
Allan Savins[4]	**2020**	**358,327**	**-**	**20,000**	**-**	**383,327**	**36,841**	**4,828**	**66,057**	**-**	**491,053**	**19%**
Simon Bednar[4]	**2020**	**281,568**	**-**	**-**	**5,010**	**286,578**	**27,313**	**16,151**	**66,057**	**-**	**396,099**	**17%**
Former Executives												
Simon Lyons	**2020**	**448,557**	**-**	**50,000**	**76,137**	**574,694**	**38,285**	**(40,129)**	**40,680**	**212,500**	**826,030**	**11%**
	2019	429,745	-	100,000	41,000	570,745	19,615	20,003	433,749	-	1,044,112	51%
Malcolm Cowell[5]	2019	92,360	-	15,000	1,424	108,784	8,433	303	24,159	-	141,679	28%
Total	**2020**	**2,600,095**	**-**	**100,000**	**103,647**	**2,803,742**	**186,480**	**(18,145)**	**199,934**	**212,500**	**3,384,511**	**9%**
	2019	1,453,722	-	165,000	54,216	1,672,938	69,722	22,099	589,101	-	2,353,860	32%

[1] Interim Chief Executive Officer from 26 May 2020
[2] Appointed as Group Chief Financial Officer on 10 December 2018
[3] Appointed as Chief Operating Officer on 10 July 2019
[4] Assessed as KMP from 1 July 2019
[5] Ceased to be Chief Financial Officer on 10 December 2018. Remuneration information disclosed above represents the period Mr Cowell was a KMP.
(A) – The fair value of performance rights granted as a STI is determined by recognising the grant date fair value over the relevant service condition period.
(B) – Non-cash benefits generally comprise housing allowance and/or car parking benefits
(C) – The fair value of performance rights is calculated at the grant date using the Monte-Carlo simulation model, taking into account the impact of the market and non-market conditions attached to the performance rights.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

4.2 Analysis of bonuses included in remuneration – audited

Details of the short-term incentive cash bonus awarded as remuneration to key management personnel are detailed below:

Short-term incentive bonus

	Included in remuneration	% awarded in year	% forfeited in year
Simon Lyons	$50,000	29	71
Allan Savins	$25,000	-	-
Jussi Nunes	$25,000	-	-

4.3 Equity instruments - audited

Performance rights refer to rights over ordinary shares of BNK, which vest on a one-for-one basis under the BNK Equity Incentive Plan.

4.3.1 Rights over equity instruments granted as compensation – audited

Details on rights over ordinary shares in the Company that were granted as remuneration to each key management personnel during the reporting period are as follows:

Rights holder	Number of rights granted during FY20	Vesting condition	Grant date	Fair value at grant date ($)	Expiry date
Allan Savins	50,000	Service and performance[1]	5 December 2019	0.58	29 November 2023
Jussi Nunes	50,000	Service and performance[1]	5 December 2019	0.58	29 November 2023
Simon Bednar	50,000	Service and performance[1]	5 December 2019	0.58	29 November 2023

[1] Refer to note 7.4.2 for further information of the vesting conditions.

4.3.2 Details of equity incentives affecting current and future remuneration – audited

Details of the vesting profiles of the performance rights held by each executive of the Group are detailed below:

Participant	Number	Grant date	% vested in year	% forfeited in year	Financial years in which grant vests
Simon Lyons[1]	666,667	9 February 2017	0%	0%	(A)
	100,000	30 October 2017	0%	0%	(A)
Steve Ellis	200,000	9 February 2017	0%	0%	(A)
	50,000	30 October 2017	0%	0%	(A)
	50,000	1 November 2018	0%	0%	2021
Allan Savins	66,666	16 April 2019	100%	0%	2020
	66,667	16 April 2019	0%	0%	2021
	66,667	16 April 2019	0%	0%	2022
	16,667	5 December 2019	0%	0%	2021
	16,667	5 December 2019	0%	0%	2022
	16,666	5 December 2019	0%	0%	2023

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

4.3.2 Details of equity incentives affecting current and future remuneration – audited (continued)

Participant	Number	Grant date	% vested in year	% forfeited in year	Financial years in which grant vests
Simon Bednar	66,666	16 April 2019	100%	0%	2020
	66,667	16 April 2019	0%	0%	2021
	66,667	16 April 2019	0%	0%	2022
	16,667	5 December 2019	0%	0%	2021
	16,667	5 December 2019	0%	0%	2022
	16,666	5 December 2019	0%	0%	2023
Jussi Nunes	16,667	5 December 2019	0%	0%	2021
	16,667	5 December 2019	0%	0%	2022
	16,666	5 December 2019	0%	0%	2023

[1] Ceased to be an executive on 25 May 2020.
(A) Performance rights previously subject to performance conditions and change of control provisions. Amounts vested during 2019 based on the Board exercising its ultimate discretion following the merger with Finsure.

4.3.3 Analysis of movements in equity instruments – audited

The value of performance rights in the Company granted during and exercised during the reporting period is detailed below:

Participant	Granted in year $ (A)	Value of rights exercised in year $ (B)
Allan Savins	29,000	45,100
Simon Bednar	29,000	45,100
Jussi Nunes	29,000	-

(A) The value of rights granted in the year is the fair value of the rights calculated at grant date. This amount is allocated to remuneration over the vesting period.

(B) The value of rights exercised during the year is calculated at the market price of shares of the Company as at close of trading on the date the rights are exercised.

4.3.4 Summary of rights holdings

Participant	Held at 1 July 2019	Granted as remuneration	Exercised	Lapsed	Forfeited	Held at 30 June 2020	Vested during the year	Vested and exercisable at 30 June 2020
Simon Lyons[1]	766,667	-	-	-	-	766,667	-	766,667
Steve Ellis	300,000	-	(125,000)	-	-	175,000	-	175,000
Jussi Nunes	-	50,000	-	-	-	50,000	-	-
Allan Savins	200,000	50,000	(66,666)	-	-	183,334	66,666	-
Simon Bednar	200,000	50,000	(66,666)	-	-	183,334	66,666	-

[1] Ceased to be a KMP on 25 May 2020.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

5. Executive Contracts

Remuneration arrangements for KMP are formalised in employment agreements. Details of these contracts are provided below:

Executives	Salary per annum	Term for cause	Term of agreement and notice period
Don Koch	$400,000 plus superannuation for the period he is acting as Interim Chief Executive Officer	None	Fixed term for 3 months ending 26 August 2020
John Kolenda	Consultancy agreement totaling $660,000 per annum	None	Continuing with 1 month notice by either party
Jussi Nunes	$330,000 plus superannuation up to the Maximum Superannuation Contribution Base	None	Continuing with 3 months' notice by either party
Steve Ellis	$220,000 plus superannuation contributions currently at 9.5%	None	Continuing with 1 month notice by either party
Lisa Stedman	$300,000 plus superannuation contributions currently at 9.5%	None	Continuing with 1 month notice by either party
Allan Savins	$350,000 plus superannuation contributions currently at 9.5%	None	Continuing with 1 month notice by either party
Simon Bednar	$300,000 plus superannuation contributions currently at 9.5%	None	Continuing with 1 month notice by either party

6. Non-executive director remuneration arrangements - Audited

Remuneration policy
The board seeks to set aggregate remuneration at a level that provides the Group with the ability to attract and retain directors of the highest caliber, whilst incurring a cost that is acceptable to shareholders. The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually against fees paid to NEDs.

The Company's constitution and the ASX listing rules specify that the NED fee pool shall be determined from time to time by a general meeting. The latest determination was at the 2018 AGM held on 9 November 2018 when shareholders approved an aggregate fee pool of $650,000 per year.

Structure
The remuneration of NEDs consists of directors' fees. The table below summarises the base NED fees excluding superannuation contributions for the financial year ended 30 June 2020:

Type of Fee	Amount per annum
Chairman	$130,000
Non-executive Director	$70,000

NEDs receive superannuation contributions of 9.5% of earnings but do not receive any other retirement benefits, nor do they participate in any incentive programs.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

6. Non-executive director remuneration arrangements – Audited (continued)

The remuneration of NEDs for the years ended 30 June 2020 and 30 June 2019 is detailed in table below.

		Short-term benefits			Post-employment	Long-term benefits	
		Salary & fees $	Non-monetary benefits	Other[7]	Superannuation	Long service leave	Total
Non-executive directors							
Jon Sutton[1]	**2020**	**79,717**	**-**	**-**	**7,573**	**-**	**87,290**
Don Koch[2]	**2020**	**63,000**	**-**	**-**	**5,985**	**-**	**68,985**
	2019	5,833	-	-	554	-	6,387
Peter Hall	**2020**	**67,667**	**-**	**-**	**6,428**	**-**	**74,095**
	2019	64,111	-	10,000	7,041	-	81,152
Jon Denovan[3]	**2020**	**56,000**	**-**	**-**	**5,320**	**-**	**61,320**
John Kolenda[4]	2019	14,722	-	-	1,399	-	16,121
Former directors							
Peter Wallace[5]	**2020**	**54,167**	**-**	**-**	**5,146**	**-**	**59,313**
	2019	115,277	-	40,000	14,751	-	170,028
Derek La Ferla[6]	**2020**	**11,667**	**-**	**-**	**1,108**	**-**	**12,775**
	2019	68,527	-	20,000	8,410	-	96,937
Total	**2020**	**332,217**	**-**	**-**	**31,561**	**-**	**363,777**
	2019	268,470	-	70,000	32,155	-	370,625

[1] Appointed 22 October 2019
[2] Remuneration for the period 1 July 2019 to 25 May 2020
[3] Appointed 2 September 2019
[4] Non-Executive Director until 17 September 2018
[5] Retired as a Director on 26 November 2019
[6] Retired as a Director on 30 August 2019
[7] Additional once-off payments for additional board services in relation to the Finsure merger.

7. Additional disclosures relating to options and shares

The numbers of shares in the Company held during the financial year by each director of the Company and other key management personnel, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

Shareholdings of key management personnel

2020	Balance at the start of the year or commencement date	Acquired	Other movement	Balance at the end of the year or date of resignation
Directors				
Peter Wallace	105,838	-	-	105,838
Derek LaFerla	-	-	-	-
Peter Hall	59,034	13,000	-	72,034
Simon Lyons	948,000	-	-	948,000
John Kolenda	13,927,478	-	(624,526)	13,302,952
Don Koch	-	-	-	-
Jon Sutton	-	60,000	-	60,000
Jon Denovan	-	-	-	-

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

2020	Balance at the start of the year or commencement date	Acquired through exercise of vested performance rights	Other movement	Balance at the end of the year or date of resignation
Executives				
Jussi Nunes	-	-	-	-
Steve Ellis	-	125,000	-	125,000
Lisa Stedman	-	-	-	-
Allan Savins	1,062,719	66,666	-	1,394,605
Simon Bednar	1,153,333	66,666	-	1,219,999

8. Loans to key management and their related parties
(i) Details of aggregate of loans to key management personnel and their related parties:

Aggregate	Balance at beginning of period/KMP appointment	Interest charged during KMP period	Write-off or allowance for doubtful debt	Balance at end of period	Number of KMP in group
2020	499,487	36,386	-	492,354	1

(ii) Terms and conditions of loans to key management personnel and their related parties

Loans to key management personnel are made on terms equivalent to an arm's length transaction, that is terms and conditions are similar to those offered to other customers at the time a loan is funded. All loans are secured by appropriate forms of collateral.

9. Other transactions and balances with key management personnel and their related parties

During the period, the Group sub-leased office space to Aura Group Pty Ltd, a related entity of Mr. John Kolenda. Rental income and recharges received during the period totaled $446,325 (2019:$635,101) and the balance receivable at 30 June 2020 was $79,825.

During the period, the Group paid $131,060 to Dentons, a related entity of Mr. Jon Denovan for legal services, which included corporate matters and services provided in the normal course of business, and the balance payable at 30 June 2020 was $491.

10. Remuneration incentives approved subsequent to balance date

Subsequent to 30 June 2020, the Remuneration Committee recommended to the Board the following incentives for members of the Executive Leadership Team.

In recognition of previously unfulfilled employment contracts conditions, for two executives, the following were approved:

Executive	Award
Jussi Nunes (CFO)	$100,000 cash bonus payable in September 2020 in lieu of 600,000 performance rights.
Lisa Stedman	300,000 performance rights subject to the following conditions: • 60,000 eligible to vest immediately and 40,000 deferred for 3 years to 10 July 2023 • 60,000 eligible to vest at 10 July 2021 subject to achievement of FY21 KPIs and 40,000 eligible to vest on 10 July 2024 • 60,000 eligible to vest at 10 July 2022 subject to achievement of FY22 KPIs and 40,000 eligible to vest on 10 July 2025

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

In addition to the above, the Remuneration Committee approved the following in recognition of performance for the year ended 30 June 2020 and retention purposes:

Executive	Award
Simon Bednar (GM Aggregation)	• Increase in base salary to $325,000 • Vesting of first tranche of FY19 bonus performance rights (16,667) • 100,000 performance rights with 50,000 to vest immediately, and vesting eligibility of the remaining 50,000 deferred for 4 years subject to continued service, satisfactory performance and claw back provisions.
Allan Savins	• Vesting of first tranche of FY19 bonus performance rights (16,667) • 80,000 performance rights with 40,000 to vest immediately, and vesting eligibility of the remaining 40,000 deferred for 4 years subject to continued service, satisfactory performance and claw back provisions.

The performance rights noted in this section have been issued on 28 August 2020.

John Kolenda has also been awarded 125,000 performance rights in relation to FY20. The issue of these performance rights however is subject to shareholder approval at the 2020 Annual General Meeting.

End of Remuneration Report

Signed in accordance with a Resolution of Directors

Jon Sutton - Chairman

Dated this 28th day of August 2020

KPMG

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 audit of BNK Banking Corporation Limited for the financial year ended 30 June 2020 there have been:

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

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

Nic Buchanan
Partner

Sydney
28 August 2020

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2020

		Consolidated		Bank	
In thousands of AUD	**Note**	**2020 $**	**2019 $**	**2020 $**	**2019 $**
Interest revenue	2.2	10,643	8,793	10,568	8,912
Interest expense	2.2	(5,830)	(5,342)	(5,612)	(5,181)
Net interest income	2.2	4,813	3,451	4,956	3,731
Commission income	2.2	290,509	187,042	-	-
Commission expense	2.2	(271,380)	(169,644)	(475)	(253)
Net commission income/(expense)		19,129	17,398	(475)	(253)
Other income	2.2	14,441	9,392	4,951	1,623
Total net revenue		**38,383**	**30,241**	**9,432**	**5,101**
Operating expenses	2.3	(27,858)	(23,652)	(8,191)	(6,634)
Transaction expenses		-	(860)	-	(860)
Impairment reversal/(expense) on loans, advances and other receivables		(634)	(20)	(584)	(20)
Impairment of bailment cash	4.1.1	(2,923)	-	(2,923)	-
Profit/(Loss) before income tax from continuing operations		**6,968**	**5,709**	**(2,266)**	**(2,413)**
Income tax (expense)/benefit	2.4.1	(1,644)	(2,095)	(8)	571
Profit/(Loss) for the period attributable to equity holders of the parent		**5,324**	**3,614**	**(2,274)**	**(1,842)**
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss, net of income tax					
Net change in fair value of financial assets – OCI	4.2	(48)	(297)	-	(205)
Total comprehensive income for the period		**5,276**	**3,317**	**(2,274)**	**(2,047)**
Basic earnings per share (cents)	5.3	6.14	5.14		
Diluted earnings per share (cents)	5.3	6.03	5.05		

The accompanying notes form part of these financial statements

STATEMENTS OF FINANCIAL POSITION
As at 30 June 2020

		Consolidated		Bank	
In thousands of AUD	**Note**	**2020**	**2019**	**2020**	**2019**
		$	**$**	**$**	**$**
ASSETS					
Cash and cash equivalents	4.1.1	18,122	19,381	15,853	17,431
Commissions and other receivables	4.4.1	412,620	285,485	6,559	3,379
Due from other financial institutions	4.2	33,335	32,344	33,335	32,344
Loans and advances	3.1	283,561	214,323	285,206	216,891
Other financial assets	4.2	38,231	46,194	38,138	46,032
Investment in subsidiaries	6.1.1	-	-	61,925	61,925
Property, plant and equipment	7.1	3,808	1,197	744	735
Goodwill and other intangible assets	7.2	49,610	47,218	4,809	3,104
Deferred tax assets	2.4.2	-	-	1,178	1,766
TOTAL ASSETS		**839,287**	**646,142**	**447,747**	**383,607**
LIABILITIES					
Deposits	4.3	345,791	287,126	345,791	287,126
Commissions and other payables	4.4.2	365,636	245,225	1,785	1,035
Current tax liability		-	-	-	-
Provisions	7.3	1,308	1,292	219	374
Deferred tax liabilities	2.4.2	13,686	12,063	-	-
TOTAL LIABILITIES		**726,421**	**545,706**	**347,795**	**288,535**
NET ASSETS		**112,866**	**100,436**	**99,952**	**95,072**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS					
Contributed equity					
Issued capital, net of raising costs	5.2.2	103,516	96,567	103,516	96,567
Reserves		1,232	1,075	1,372	1,167
Retained earnings		8,118	2,794	(4,936)	(2,662)
TOTAL EQUITY		**112,866**	**100,436**	**99,952**	**95,072**

The accompanying notes form part of these financial statements

STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2020

In thousands of AUD

Consolidated

Attributable to equity holders	Note	Issued Capital	Other Contributed Equity	Equity Raising Costs	Treasury Shares	P,P & E 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**	**1,831**	**(1,631)**	**-**	**97**	**205**	**342**	**357**	**(716)**	**24,565**
Profit for the period		-	-	-	-	-	-	-	-	3,614	3,614
Other comprehensive income		-	-	-	-	-	(297)	-	-	-	(297)
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**(297)**	**-**	**-**	**3,614**	**3,317**
Transactions with owners of the Company											
Issue of share capital	5.2.2	73,277	-	-	-	-	-	-	(301)	-	72,976
Equity raising costs, net of tax	5.2.4	-	-	(990)	-	-	-	-	-	-	(990)
Transfers		1,831	(1,831)	-	-	-	-	104	-	(104)	-
Cost of share-based payments		-	-	-	-	-	-	-	568	-	568
Balance at 30 June 2019		**99,188**	**-**	**(2,621)**	**-**	**97**	**(92)**	**446**	**624**	**2,794**	**100,436**
Balance at 1 July 2019		**99,188**	**-**	**(2,621)**	**-**	**97**	**(92)**	**446**	**624**	**2,794**	**100,436**
Sale of branch building		-	-	-	-	(97)	-	-	-	-	(97)
Profit for the period		-	-	-	-	-	-	-	-	5,324	5,324
Other comprehensive income		-	-	-	-	-	(48)	-	-	-	(48)
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**(48)**	**-**	**-**	**5,324**	**5,179**
Transactions with owners of the Company											
Issue of share capital	5.2.2	7,082	-	-	-	-	-	-	(62)	-	7,020
Equity raising costs, net of tax	5.2.4	-	-	(133)	-	-	-	-	-	-	(133)
Acquisition of treasury shares	5.2.5	-	-	-	(103)	-	-	-	-	-	(103)
Cost of share-based payments		-	-	-	-	-	-	-	467	-	467
Balance at 30 June 2020		**106,270**	**-**	**(2,754)**	**(103)**	**-**	**(140)**	**446**	**1,029**	**8,118**	**112,866**

The accompanying notes form part of these financial statements

STATEMENTS OF CHANGES IN EQUITY
For the year ended 30 June 2020

In thousands of AUD **Bank**

Attributable to equity holders	Note	Issued Capital	Other Contributed Equity	Equity Raising Costs	Treasury Shares	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**	**1,831**	**(1,631)**	**-**	**97**	**205**	**342**	**357**	**(716)**	**24,565**
Profit for the period		-	-	-	-	-	-	-	-	(1,842)	(1,842)
Other comprehensive income		-	-	-	-	-	(205)	-	-	-	(205)
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**(205)**	**-**	**-**	**(1,842)**	**(2,047)**
Transactions with owners of the Company											
Issue of share capital	5.2.2	73,277	-	-	-	-	-	-	(301)	-	72,976
Equity raising costs, net of tax	5.2.4	-	-	(990)	-	-	-	-	-	-	(990)
Transfers		1,831	(1,831)	-	-	-	-	104	-	(104)	-
Cost of share-based payments		-	-	-	-	-	-	-	568	-	568
Balance at 30 June 2019		**99,188**	**-**	**(2,621)**	**-**	**97**	**-**	**446**	**624**	**(2,662)**	**95,072**
Balance at 1 July 2019		**99,188**	**-**	**(2,621)**	**-**	**97**	**-**	**446**	**624**	**(2,662)**	**95,072**
Sale of branch building		-	-	-	-	(97)	-	-	-	-	(97)
Profit for the period		-	-	-	-	-	-	-	-	(2,274)	(2,274)
Other comprehensive income		-	-	-	-	-	-	-	-	-	-
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,274)**	**(2,371)**
Transactions with owners of the Company											
Issue of share capital	5.2.2	7,082	-	-	-	-	-	-	(62)	-	7,020
Equity raising costs, net of tax	5.2.4	-	-	(133)	-	-	-	-	-	-	(133)
Acquisition of treasury shares	5.2.5	-	-	-	(103)	-	-	-	-	-	(103)
Cost of share-based payments		-	-	-	-	-	-	-	467	-	467
Balance at 30 June 2020		**106,270**	**-**	**(2,754)**	**(103)**	**-**	**-**	**446**	**1,029**	**(4,936)**	**99,952**

The accompanying notes form part of these financial statements

STATEMENTS OF CASH FLOWS
For the year ended 30 June 2020

		Consolidated		Bank	
	Note	2020	2019	2020	2019
In thousands of AUD		$	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		10,643	8,793	10,568	8,912
Fees and commissions received		177,748	128,434	1,597	365
Interest and other costs of finance paid		(5,830)	(5,342)	(5,612)	(5,182)
Other income received		1,786	338	1,108	168
Payments to suppliers and employees		(181,392)	(134,024)	(9,005)	(7,636)
Net increase in loans, advances and other receivables		(69,400)	(43,699)	(68,216)	(47,619)
Net (decrease)/increase in deposits and other borrowings		58,665	91,903	58,665	91,903
Net (payments)/receipts for investments		6,903	(46,692)	6,903	(46,692)
Net cash provided by/(used in) operating activities		(877)	(289)	(3,992)	(5,781)
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash acquired in a business combination		-	294	-	-
Investment in subsidiary		-	-	-	(8,950)
Proceeds from sale of property, plant and equipment		506	-	506	-
Payments for property, plant and equipment		(42)	(212)	(25)	(56)
Payments for intangible assets		(3,609)	(2,962)	(1,882)	(1,335)
Net cash from/(used in) investing activities		(3,145)	(2,880)	(1,401)	(10,341)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from the issue of capital	5.2.2	7,082	20,302	7,082	20,302
Payments for equity raising costs	5.2.4	(133)	(1,278)	(133)	(1,278)
Payments for treasury shares	5.2.5	(103)	-	(103)	-
Payments for lease liabilities		(1,160)	-	(108)	-
Repayment of borrowings		-	(11,003)	-	-
Net (used in)/cash from financing activities		5,686	8,021	6,738	19,024
Net increase/(decrease) in cash held		1,664	4,852	1,346	2,902
Cash and cash equivalents at beginning of the year		19,381	14,529	17,431	14,529
Cash and cash equivalents at end of the year		**21,045**	**19,381**	**18,776**	**17,431**
Less provision for non-recovery of ATM bailment cash	4.1.1	(2,923)	-	(2,923)	-
Total cash and cash equivalents		**18,122**	**19,381**	**15,853**	**17,431**

The accompanying notes form part of these financial statements

1. BASIS OF PREPARATION

1.1 Corporate information

BNK Banking Corporation Limited (the "Company", "the Bank" or "BNK") is a for-profit entity and provides a range of retail banking products and financial services directly and through third party intermediaries.

The Company is a publicly listed company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is Level 14, 191 St George's Terrace, Perth 6000, Western Australia. BNK is listed on the Australian Securities Exchange (ASX:BBC).

The financial report for BNK and its controlled entities (the Group) for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the directors on 28 August 2020.

1.2 Basis of accounting

(a) Basis of preparation

The financial report includes the consolidated and stand-alone financial statements of the Group and the Bank, respectively. This financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared on a going concern basis and is stated at historical costs, not taking into account changing money values, except where stated. Cost is based on the fair values of the consideration given in exchange for assets.

The report is presented in Australian dollars with all values rounded to the nearest thousand dollars ($'000) in accordance with ASIC Corporations Instrument 2016/191 unless otherwise indicated.

This is the first set of financial statements in which AASB 16 *Leases* has been applied. Refer to note 8.2 for further information regarding the impact upon transition to this standard.

The Company presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in the notes to the financial statements.

(b) Statement of compliance

The financial report complies with the Corporations Act 2001, Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

1.3 Significant accounting judgements and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and adjusted as required. This is particularly pertinent in the year ended 30 June 2020 where the impact of the COVID-19 pandemic has caused significant impact to the Australian (and global) economy with inherent uncertainty as to future economic conditions. Revisions to accounting estimates are recognised in the period on which the estimate is revised and in any future periods affected. Specific adjustments to inputs and assumptions as a result of COVID-19 are explained in the relevant notes to this financial report as referenced below:

	Reference
Identification and measurement for impairment of loans and receivables	3.2
Derecognition of financial assets, sale of loans	3.3
Utilisation of carry forward tax losses, recognition of deferred tax asset	2.4
Capitalisation of intangible assets	7.2
Net present value of future trail commissions	4.4
Impairment of goodwill and other intangibles	7.2

1. BASIS OF PREPARATION (CONTINUED)

2. FINANCIAL PERFORMANCE

2.1 Operating segments

The Group has three operating businesses, which are its reportable segments. AASB 8 requires operating segments to be identified on the basis of internal information provided to the chief decision maker, the Interim Chief Executive Officer/Managing Director, 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 Goldfields Money brand (and soon to be launched BNK Bank brand).

Loans are originated via online applications, accredited brokers and through the Group's Wholesale mortgage management division. Loans are held on balance sheet as well through off balance sheet arrangements. Deposits are originated through direct marketing efforts as well as through a number of third party intermediaries. BNK's award winning deposits are guaranteed by the Australian Government Deposit Guarantee for up to $250,000 per customer. 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).

The segment earns fees for services, largely in the form of upfront and trail commissions as well as mortgage management administration fees.

Aggregation

The Aggregation segment provides contracted administrative and infrastructure support to 1,740 mortgage brokers, connecting them with a panel of approximately 65 lenders. The segment is primarily branded as Finsure and LoanKit and is one of Australia's largest aggregators.

Aggregation derives commissions including upfront commissions which are earned upon each loan settlement, and ongoing trail commissions. Additional revenue in the form of fees for service including recurring software as a service (SaaS), compliance, professional development and other support services. The implementation of the Infynity CRM platform in the year ended 30 June 2020 provides enhanced capability for Aggregation to diversify its revenues from third party lead generation opportunities.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.1 Operating segments (continued)

	30 June 2020				30 June 2019			
In thousands of AUD	**Banking $**	**Aggregation $**	**Wholesale $**	**Total $**	**Banking $**	**Aggregation $**	**Wholesale $**	**Total $**
Revenue								
Interest income	10,721	166	2	10,889	8,912	136	5	9,053
Inter-segment interest income	(246)	-	-	(246)	(260)	-	-	(260)
Total interest income	10,475	166	2	10,643	8,652	136	5	8,793
Commission and non-interest income	4,951	286,870	14,260	306,081	1,623	183,805	12,561	197,989
Inter-segment commission income	-	-	(1,131)	(1,131)	-	-	(1,555)	(1,555)
Total commission and non-interest income	4,951	286,870	13,129	304,950	1,623	183,805	11,006	196,434
Total segment revenue	15,426	287,036	13,131	315,593	10,275	183,941	11,011	205,227
Interest expense	5,574	-	-	5,574	5,181	-	-	5,181
Inter-segment interest expense	-	(246)	-	(246)	-	(260)	-	(260)
Other	38	440	24	502	-	421	-	421
Total interest expense	5,612	194	24	5,830	5,181	161	-	5,342
Commission expense	627	265,281	6,603	272,511	253	163,763	7,183	171,199
Inter-segment commission expense	(394)	(737)	-	(1,131)	-	(1,555)	-	(1,555)
Total commission expense	233	264,544	6,603	271,380	253	162,208	7,183	169,644
Segment profit/(loss) before tax	(2,267)	8,989	246	6,968	(2,414)	10,189	(2,066)	5,709
Material non-cash expenses:								
Depreciation and amortisation	421	1,831	81	2,333	288	678	6	972
Share-based payments	422	-	-	422	403	79	52	534
Segment assets	388,169	416,332	34,786	839,287	321,133	292,722	32,287	646,142
Segment liabilities	346,018	363,380	17,023	726,421	286,484	245,499	13,723	545,706

2. FINANCIAL PERFORMANCE (CONTINUED)

2.2 Income

Net interest income

In thousands of AUD	**Consolidated 2020 $**	**Consolidated 2019 $**	**Bank 2020 $**	**Bank 2019 $**
Interest revenue				
Loans and advances	9,756	7,618	9,849	7,821
Sub-lease Finance lease	134	-	-	-
Due from other institutions	753	1,175	719	1,091
Total interest income	10,643	8,793	10,568	8,912
Interest expense				
Deposits	5,574	5,182	5,574	5,181
Lease liabilities	248	-	38	-
Other	8	160	-	-
Total interest expense	5,830	5,342	5,612	5,181
Net interest income	4,813	3,451	4,956	3,731
Weighted average interest rate - loans and advances	3.74%	4.81%	3.74%	4.81%
Weighted average interest rate - deposits	1.30%	2.23%	1.30%	2.23%
Spread	2.44%	2.58%	2.44%	2.58%

Net commission income

Commission income				
Upfront commission	94,490	63,438	-	-
Trail commission income	78,183	55,075	-	-
Change in net present value of future trail commissions receivable	117,836	68,529	-	-
Total commission income	290,509	187,042	-	-
Commission expense				
Upfront commission expense	90,345	60,021	-	-
Trail commission expense	68,496	47,089	475	253
Change in net present value of future trail commission payable	112,539	62,534	-	-
Total commission expense	271,380	169,644	475	253
Net commission income/(expense)	19,129	17,398	(475)	(253)

Other income

Service fees and other residual income	1,616	1,327	442	249
Aggregation services fee income	6,105	4,390	-	-
Lending fees	679	600	128	181
Transaction fees	16	26	16	26
Sponsorship income	1,659	1,881	-	-
Cash convenience income	261	830	261	830
Insurance recovery (refer note 4.1.1)	2,898	-	2,898	-
Dividends received	4	6	4	6
Other	1,203	332	1,202	331
Total other income	14,441	9,392	4,951	1,623

The Group has applied AASB 16 *Leases* with effect from 1 July 2019. Information about the effect of initially applying this standard is described in Note 8.2.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.2 Income (continued)

Accounting policy - recognition and measurement

Banking

Interest income and expense

Interest income and expense is recognised in profit or loss using the effective interest rate method. This is the rate that exactly discounts the estimated future cash receipts or payments over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. The calculation of the effective interest rate includes transaction costs (such as payments made to brokers for the introduction of loans) and fees and points paid or received that are an integral part of the interest rate. Transaction costs include incremental costs that are directly attributable to acquisition or issue of a financial asset or financial liability.

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit- impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

Banking fees and commissions

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (refer above).

Other fee and commission income including account servicing fees, cash convenience income is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

Service and residual income

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of AASB 9 *Financial Instruments* and partially in the scope of AASB 15 *Revenue from Contracts with Customers*. If this is the case, then the Group first applies AASB 9 to separate and measure the part of the contract that is in the scope of AASB 9 and then applies AASB 15 to the residual.

Service fees and residual income arises from the management of loans and receivables which have previously been originated by BNK and sold to other parties. Service fees are recognised from rendering of services principally for the management of the loans, and residual income is recognised from the residual amount collected from customers after transferring to the legal owner of the loans a contractually agreed return.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are incurred.

Dividends

Revenue is recognised when the Company's right to receive the payment is established, which is generally when the dividend has been declared.

Rental income

Rental income arising from operating leases is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of comprehensive income due to its operating nature.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.2 Income (continued)

Accounting policy - recognition and measurement (continued)

Aggregation and Wholesale

Commission revenues

The Group provides loan origination services and receives upfront origination commission on the settlement of loans. Additionally the lender normally pays a trailing commission over the life of the loan. Commission revenue is recognised as follows:

Origination commissions

Origination commissions are recognised upon the loans being settled and receipt of commission net of clawbacks.

Trailing commissions

The Group receives trailing commissions from lenders on loans they have settled that were originated by the Group. The trailing commissions are received over the life of the loans based on the individual loan balance outstanding. The Group also makes trailing commission payments to authorised mortgage originators (brokers) based on the individual loan balance outstanding.

On initial recognition, trailing commission revenue and receivables are recognised at the transaction price using the expected value approach as a contract asset under AASB 15, being the expected future trailing commission receivables discounted to their net present value. In addition, an associated payable and expense to the relevant brokers are also recognised, initially measured at fair value being the future trailing commission payable to relevant brokers discounted to their net present value. These calculations require the use of assumptions which are determined by management with the assistance of external actuaries.

Subsequent to initial recognition and measurement both the trailing commission asset and trailing commission liability are measured at amortised cost. The carrying amount of the trailing commission asset and trailing commission payable are adjusted to reflect actual and revised estimated cash flows by recalculating the carrying amount with reference to the present value of estimated future cash flows at the original effective interest rate. The resulting adjustment is recognised as income or expense in the Consolidated Statement of Profit or Loss.

Aggregation service fee income

The Group offers contracts to brokers based upon their settlement volumes. Brokers with high volume transactions receive 100% distribution of all commissions and are charged a monthly fee in arrears for the aggregation service. Revenue from flat fees is recognised at the point in time the service is provided.

The Group earns Software as a Service income for subscription to its proprietary loan origination platform "Infynity" and also provides compliance and licensing services to its brokers. The Group charges a fee for both of these services, with revenue recognised at the point in time the service is provided.

Sponsorship income

Sponsorship income is the income generated from sponsorship arrangements with other lenders, supporting the continuous education of the Group's brokers. The income is brought to account when services relating to the income have been performed over time.

NOTES TO THE FINANCIAL REPORT

2. FINANCIAL PERFORMANCE (CONTINUED)

2.3 Operating Expenses

In thousands of AUD	Consolidated 2020 $	Consolidated 2019 $	Bank 2020 $	Bank 2019 $
Depreciation and amortization*	2,333	972	421	288
Information technology	1,543	1,308	846	826
Banking services delivery	402	355	402	355
Employee benefits	16,576	12,985	4,359	3,882
Professional services	1,546	1,588	1,080	615
Marketing	1,784	2,212	85	109
Occupancy	477	1,277	163	261
Other administration expenses	3,197	2,955	835	298
Total operating expenses	27,858	23,652	8,191	6,634

* 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 8.2 for further information.

Accounting policy - recognition and measurement

The Group recognises an expense when it has an obligation to settle for goods or services received.

2.4 Income tax

2.4.1 The major components of income tax expense/(benefit) are:

In thousands of AUD	Consolidated 2020 $	Consolidated 2019 $	Bank 2020 $	Bank 2019 $
Recognised in profit or loss				
Current tax	-	-	-	-
Deferred tax	1,644	2,095	8	(571)
Income tax expense/(benefit) recognised in Profit or Loss	1,644	2,095	8	(571)
Recognised in equity				
Financial instruments at fair value through OCI	(60)	(116)	-	(77)
Equity raising costs	93	-	93	-
Income tax expense/(benefit) recognised in Other Comprehensive Income	(33)	(116)	(16)	(77)
Tax reconciliation				
Profit/(Loss) before tax	6,969	5,709	(2,266)	(2,414)
Prima facie income tax expense/(benefit) on profit before income tax at 30% (2019:30%)	2,091	1,712	(680)	(724)
Adjust for tax effect of:				
Non-deductible expenses	138	325	126	80
Change in corporate tax rate	-	(60)	-	(60)
Prior period adjustments	(585)	118	562	133
Income tax expense/(benefit) recognised in Profit or Loss	1,644	2,095	8	(571)

2. FINANCIAL PERFORMANCE (CONTINUED)

2.4 Income tax (continued)

2.4.2 Deferred tax assets and liabilities

In thousands of AUD	Consolidated 2020 $	Consolidated 2019 $	Bank 2020 $	Bank 2019 $
Deferred tax assets comprise temporary differences attributable to:				
Provision for doubtful debts	1,135	77	1,119	77
Accrued expenses	232	282	72	139
Provisions	420	404	65	112
Equity raising costs	560	612	374	355
Lease liabilities	1,360	-	202	-
Net present value of trail commission payable	102,886	69,125	-	-
Other	236	75	-	666
Carry forward losses and R&D offsets	2,858	4,202	-	688
Total deferred tax assets	109,687	74,777	1,832	2,037
Deferred tax liabilities comprise temporary differences attributable to:				
Prepayments and other assets	6	32	5	1
Intangible assets	5,418	5,730	-	-
Net present value of trail commission receivable	116,159	80,808	-	-
Deferred commission expense	410	218	410	218
Property, plant and equipment	1,380	52	239	52
Total deferred tax liabilities	123,373	86,840	654	271
Set-off	(109,687)	(74,777)	(654)	(271)
Net deferred tax asset/(liability)	(13,686)	(12,063)	1,178	1,766

Accounting policy - Recognition and measurement

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income) recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income.

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

The Company has formed a tax consolidated group (TCG) under the tax consolidation regime. The members of the TCG have entered into tax funding and tax sharing agreements, which set out the funding obligations and members. Any current tax liabilities/assets and deferred tax assets from unused tax losses from subsidiaries in the tax consolidated group are recognised by the Bank as utilised and funded in line with the tax funding agreement.
The measurement and disclosure of deferred tax assets and liabilities have been performed on a “separate taxpayer within a group” approach in accordance with UIG 1052 *Tax Consolidation Accounting*.

Use of judgements and estimates

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

3. LOANS AND ADVANCES

3.1 Loans and advances

In thousands of AUD	Consolidated 2020 $	Consolidated 2019 $	Bank 2020 $	Bank 2019 $
Residential loans	263,446	190,030	263,446	190,030
Term loans	18,796	22,377	19,982	24,748
Personal loans	854	1,313	854	1,313
Overdrafts	469	444	469	444
	283,565	214,164	284,751	216,535
Add: Unamortised broker commissions	721	418	1,180	615
Gross loans and advances	284,286	214,582	285,931	217,150
Provision for credit losses	(725)	(259)	(725)	(259)
Loans and advances net of provisions	283,561	214,323	285,206	216,891

Maturity analysis – gross loans and advances

	Consolidated 2020 $	Consolidated 2019 $	Bank 2020 $	Bank 2019 $
Overdrafts	469	444	469	444
Not longer than 1 year	20	1,549	20	4,117
Longer than 1 and not longer than 5 years	5,863	11,540	7,508	11,540
Longer than 5 years	277,934	201,049	277,934	201,049
	284,286	214,582	285,931	217,150

Accounting policy - Recognition and measurement
All loans are initially recognised at fair value, net of transaction costs incurred and inclusive of loan origination fees. Loans are subsequently measured at amortised cost based on the Group's business model objective; this is to originate loans and advances on its balance sheet and hold to collect repayments of principal and interest. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the loans using the effective interest method.

Loans and advances are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Group at the reporting date, less any allowance or provision for impairment.

All loans and advances greater than 30 days in arrears are reviewed and graded according to the anticipated level of credit risk. Expected credit loss provisions are recognised as set out in note 3.2. The classification adopted is described below:

- Non-accrual loans - are loans and advances where the recovery of all interest and principal is considered to be reasonably doubtful and hence provisions for impairment are recognised.
- Restructured loans - arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms. Loans with revised terms are included in non-accrual loans when impairment provisions are required.
- Past-due loans - are loans where payments of principal and/or interest are at least 90 days in arrears but due to mortgage security available full recovery of both principal and interest is expected.

Refer to note 5.1.4 for further information regarding credit risk including detail around the loans subject to COVID-19 repayment deferrals.

3. LOANS AND ADVANCES

3.2 Provision for credit losses

	Consolidated		Bank	
In thousands of AUD	**2020**	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Expected credit loss provision	725	259	725	259
Total provisions for credit losses	725	259	725	259

Expected credit loss provision				
Opening balance	258	240	258	240
Bad debts provided for during the year	467	19	467	19
Bad debts written off during the year	-	-	-	-
Closing balance	725	259	725	259

On 23 March 2020, APRA advised ADIs that for customers who chose to defer loan repayments as part of a COVID-19 support package, ADIs are not required to treat the period of a repayment holiday as a loan in arrears. Similarly, loans that have been granted a repayment deferral as part of a COVID-19 support package, are not required to be considered as restructured. APRA noted however that ADIs would need to consider these loans with regards to credit loss provisioning under AASB 9. Refer to note 5.1.4 for further information on the expected credit loss provisions recognised at balanced date including detail around the loans subject to COVID-19 repayment deferrals.

Accounting policy - Recognition and measurement

Financial assets

Expected credit loss provision

Financial assets at amortised cost consist of cash and cash equivalents, amounts due from other financial institutions, investment securities and loans and advances.

Under AASB 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date (Stage 1); and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument (Stages 2 and 3).

If credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort in determining to reclassify it from Stage 1 to Stage 2 or 3. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Upon determination that a customer is in default, an assessment is made whether the loan is to be classified as past due or impaired. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

3. LOANS AND ADVANCES

3.2 Provision for credit losses (cont'd)

The key inputs into the measurement of ECL are the term structure of the following variables:
- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

Management overlays take into account factors such as borrower industry, unemployment rates and further collateral declines.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by residential properties, LVR ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

3. LOANS AND ADVANCES

3.2 Provision for credit losses

Reconciliation of expected credit loss provision

In thousands of AUD	**Consolidated**									
	Stage 1		**Stage 2**		**Stage 3**		**Management overlay**		**Total**	
	Gross exposure	**Provision**	**Gross exposure**	**Provision**	**Gross exposure**	**Provision**	**Gross exposure**	**Provision**	**Gross exposure**	**Provision**
Opening balance – 1 July 2019	212,432	188	1,420	30	730	41	-	-	214,582	259
Transfers to/(from)										
Stage 1	(14,616)	-	-	-	-	-	-	-	(14,616)	-
Stage 2	-	-	61	7	-	-	-	-	61	7
Stage 3	-	-	-	-	711	46	-	-	711	46
Net financial assets originated	69,704	-	-	-	-	-	-	-	69,704	-
New and increased provisions	-	17	-	-	-	-	13,844	396	13,844	413
Bad debts written off	-	-	-	-	-	-	-	-	-	-
Closing balance – 30 June 2020	267,520	205	1,481	37	1,441	87	13,844	396	284,286	725

In thousands of AUD	**Bank**									
	Stage 1		**Stage 2**		**Stage 3**		**Management overlay**		**Total**	
	Gross exposure	**Provision**	**Gross exposure**	**Provision**	**Gross exposure**	**Provision**	**Gross exposure**	**Provision**	**Gross exposure**	**Provision**
Opening balance – 1 July 2019	214,077	188	1,420	30	730	41	-	-	216,227	259
Transfers to/(from)										
Stage 1	(14,616)	-	-	-	-	-	-	-	(14,616)	-
Stage 2	-	-	61	7	-	-	-	-	61	7
Stage 3	-	-	-	-	711	46	-	-	711	46
Net financial assets originated	69,704	-	-	-	-	-	-	-	69,704	-
New and increased provisions	-	17	-	-	-	-	13,844	396	13,844	413
Bad debts written off	-	-	-	-	-	-	-	-	-	-
Closing balance – 30 June 2020	269,165	205	1,481	37	1,441	87	13,844	396	285,931	725

3. LOANS AND ADVANCES

3.3 Derecognition of loans and advances

The Company is party to a Receivables Acquisition & Servicing Agreement (RASA) with Bendigo & Adelaide Bank Limited (BEN) that enables the Company to sell residential loans (owner occupied and investment) to BEN as required to assist with regulatory capital and/or liquidity management requirements.

Loans sold to BEN have to meet certain criteria and are derecognised on the basis that the risks and rewards associated with the loans have been substantially transferred. The Company retains the servicing responsibilities and is entitled to the residual income from the loans once the funder's cost of funds and other costs have been met. Service fee and residual income is recognised in profit and loss as noted in Note 2.2.

The RASA has a limit of $90,000,000 and is subject to annual review by BEN. In the event that the RASA program criteria were not to BEN's satisfaction, the limit could be reduced or cancelled and/or BEN may appoint an alternative servicer of the loans. The Company is not obligated to repurchase the loans subsequent to their sale.

Loans sold in to the RASA are sold at their carrying amount inclusive of accrued interest, with no gain or loss recognised by the Company. The RASA is utilised primarily for capital management purposes and the Group's business model has been determined as originating loans to hold and collect principal and interest repayments. Loan sales in current and previous periods have occurred prior to a capital raising in order to ensure the Group complies with its capital adequacy requirements. The Company's objective is to originate and hold as many loans on balance sheet as possible, given the higher yields derived from on balance sheet loans compared to loans sold to the RASA. Sales therefore only occur when the Company is nearing its prudential capital ratio.

The balance of loans serviced by the Company at reporting date:

In thousands of AUD	**2020** **$**	**2019** **$**
Owner occupier loans	28,336	26,599
Investment loans	18,471	10,929
	46,807	37,528

Loan sales:

Year ended	**Date of sale**	**Number of loans**	**Proceeds $('000s)**
30 June 2020	3 October 2019	8	3,711
	19 December 2019	14	5,684
	22 January 2020	15	5,009
30 June 2019	Nil	-	-

Accounting policy - Recognition and measurement

The Company derecognises loans when the contractual rights to the cash flows from the loan expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the loans are transferred. On derecognition of the loans, the difference between the carrying amount of the asset and the consideration received is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

4. LIQUIDITY AND FUNDING

4.1.1 Cash and cash equivalents

In thousands of AUD	Consolidated 2020 $	Consolidated 2019 $	Bank 2020 $	Bank 2019 $
Cash at bank and on hand	21,045	19,381	18,776	17,431
Less provision for non-recovery of bailment cash	(2,923)	-	(2,923)	-
Total cash and cash equivalents	18,122	19,381	15,853	17,431

Included within cash at bank and on hand are balances relating to ATM bailment and cash in transit arrangements with ATM Co Pty Ltd and Tuff Enterprises Pty Ltd, both of which were placed into liquidation in August 2019. The liquidator has not identified the location of the Company's cash totalling approximately $2,923,000. The Company has lodged a claim with its insurer for the missing cash, and provided relevant documentary evidence, in conjunction with the insurer's appointed forensic specialists. The Company has recognised a provision against the cash. In addition, a receivable for the estimated insurance recovery has been recognised (refer note 4.4.1) as at the reporting date.

As set out in note 7.9, subsequent to the reporting date the Company received partial indemnification from the insurer in respect of $1,197,750 of the claim. Further information was requested by the insurer regarding the balance of the claim of approximately $1,725,250. This information has been provided to the insurer and police, and the balance is subject to finalisation by the insurer. In the event that part or all of the remaining balance of the claim is denied, the receivable will be impaired in subsequent periods.

Recognition and measurement
Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

Cash flows on net basis
For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Cash flows arising from loans, deposits, and investments are presented on a net basis in the Statement of Cash Flows.

4.1.2 Reconciliation to the Statement of Cash Flows

In thousands of AUD	Consolidated 2020 $	Consolidated 2019 $	Bank 2020 $	Bank 2019 $
Operating profit/(loss) after income tax	5,324	3,614	(2,274)	(1,843)
Non-cash items				
Depreciation and amortisation	2,333	972	421	288
Change in fair value of NPV asset	(117,836)	(68,529)	-	-
Change in fair value of NPV liability	112,539	62,534	-	-
Impairment of financial assets	3,557	19	3,507	19
Leave provisions	183	183	(156)	91
Share-based payments	405	292	405	265
Gain on sale of financial assets	(1,062)	-	(1,062)	-
Gain on sale of property, plant and equipment	(78)	-	(78)	-
Insurance recovery	(2,898)	-	(2,898)	-
Movement in assets and liabilities				
Loans and receivables	(69,400)	(43,699)	(68,216)	(46,069)
Investments	6,903	(46,692)	6,903	(46,692)
Deposits	58,665	91,903	58,665	91,903
Other assets	1,467	1,002	(178)	(2,665)
Deferred tax assets	-	667	587	(1,099)
Deferred tax liabilities	1,623	805	-	-
Current tax receivable/payable	-	(7)	-	(7)
Payables	(2,587)	(3,170)	226	119
Provisions	(16)	(183)	156	(91)
Net cash flow from operating activities	(877)	(289)	(3,992)	(5,781)

4. LIQUIDITY AND FUNDING

4.2 Financial assets

	Consolidated		Bank	
In thousands of AUD	**2020 $**	**2019 $**	**2020 $**	**2019 $**
Due from other financial institutions at amortised cost	33,335	32,344	33,335	32,344
Investment securities at amortised cost (a)	37,996	45,890	37,996	45,890
Investment in Cuscal Limited at fair value through OCI (b)	142	142	142	142
Investments in listed companies at fair value	93	162	-	-
	71,566	78,538	71,473	78,376
Maturity analysis				
Due from other financial institutions				
- Not longer than 3 months	19,500	32,344	19,500	32,344
- 3 months to 1 year	6,215	-	6,215	-
- 1 year to 5 years	7,620	-	7,620	-
	33,335	32,344	33,335	32,344
Investment securities				
- Not longer than 3 months	11,115	-	11,115	-
- 3 months to 1 year	-	13,766	-	13,766
- 1 year to 5 years	19,715	22,088	19,715	22,088
- More than 5 years	7,166	10,036	7,166	10,036
	37,996	45,890	37,996	45,890

(a) Investment securities are investments in debt securities comprising floating rate notes issued by other banks, and bonds issued by Commonwealth and state-governments, initially recognised at fair value and subsequently at amortised cost.

(b) The shareholding in Cuscal Ltd ("Cuscal") is classified as at fair value through other comprehensive income. These shares are held to enable the Company to receive essential banking services - refer to Note 7.7. Cuscal operates an off market exchange whereby financial institutions holding Cuscal shares are able to trade with each other. The investment in Cuscal is considered a Level 2 investment in the fair value hierarchy and fair value has been determined using the market comparison technique with reference to recent sales transacted by financial institutions.

Accounting policy - Recognition and measurement

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through profit or loss (FVTPL) or fair value value through other comprehensive income (FVOCI).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI .This election is made on an investment-by-investment basis. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

4. LIQUIDITY AND FUNDING

4.2 Financial assets (continued)

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of:
(i) the consideration received (including any new asset obtained less any new liability assumed) and
(ii) any cumulative gain or loss that had been recognised in OCI.

From 1 July 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Refer to notes 5.1.2, 5.1.4 and 5.1.5 for further details on interest rate risk, credit risk and liquidity risk.

4.3 Deposits

In thousands of AUD	Consolidated 2020 $	Consolidated 2019 $	Bank 2020 $	Bank 2019 $
Call deposits	122,021	55,517	122,021	55,517
Term deposits	223,770	231,609	223,770	231,609
	345,791	287,126	345,791	287,126
Maturity analysis				
- At call	122,021	55,517	122,021	55,517
- Not longer than 3 months	100,816	105,249	100,816	105,249
- Longer than 3 months but less than 12 months	103,694	121,082	103,694	121,082
- Longer than 12 months but less than 5 years	19,260	5,278	19,260	5,278
	345,791	287,126	345,791	287,126

Accounting policy - Recognition and measurement
Call deposits and term deposits are initially recognised at fair value, net of any directly attributable transaction costs. Subsequent to initial measurement, they are measured at amortised cost using the effective interest rate method.

4.4 Receivables and payables

4.4.1 Commission and other receivables

In thousands of AUD	Consolidated 2020 $	Consolidated 2019 $	Bank 2020 $	Bank 2019 $
Net present value of future trail commission receivable	387,197	269,361	-	-
Accrued commission income	16,551	12,826	-	-
Sub-lease finance lease receivable	1,121	-	-	-
Insurance receivable	2,898	-	2,898	-
Prepayments	1,564	955	974	403
Other debtors	3,372	2,343	2,770	2,976
Less provision for impairment	(83)	-	(83)	-
Total commissions and other receivables	412,620	285,485	6,559	3,379

NOTES TO THE FINANCIAL REPORT

4. LIQUIDITY AND FUNDING

4.4 Receivables and payables (continued)

4.4.2 Commissions and other payables

In thousands of AUD	Consolidated 2020 $	2019 $	Bank 2020 $	2019 $
Net present value of future trail commission payable	342,954	230,415	-	-
Accrued commission payable	15,300	11,652	-	-
Lease liability – refer to note 8.2	4,646	-	671	
Trade creditors and accrued expenses	2,736	3,158	1,114	1,035
Total commissions and other payables	365,636	245,225	1,785	1,035

Accounting policy - Recognition and measurement

The Group receives trailing commissions and mortgage management administration fees from lenders on loans they have settled that were originated by the Group. The trailing commissions and mortgage management administration fees are received over the life of the loans based on the individual loan balance outstanding. The Group also makes trailing commission payments to authorised mortgage originators (brokers) based on the individual loan balance outstanding.

On initial recognition, trailing commission revenue and receivables are recognised initially at transaction price using the expected value method as a contract asset under AASB 15, being the expected future trailing commission receivables discounted to their net present value. In addition, an associated payable and expense to the relevant brokers are also recognised, initially measured at fair value being the future trailing commission payable to relevant brokers discounted to their net present value. These calculations require the use of assumptions which are determined by management.

Subsequent to initial recognition and measurement both the trailing commission asset and trailing commission payable are measured at amortised cost. The carrying amount of the trailing commission asset and trailing commission payable are adjusted to reflect actual and revised estimated cash flows by recalculating the carrying amount with reference to the present value of estimated future cash flows at the original effective interest rate. The resulting adjustment is recognised as income or expense in the Income Statement.

The key assumptions underlying the fair value calculations of trailing commission receivable and the corresponding payable to brokers at the reporting date is summarised in the following table:

	2020	**2019**
Discount rate per annum	Between 3.5% and 6.5%	Between 4.5% and 6.5%
Percentage paid to brokers	Between 5% and 95%	Between 5% and 95%
Weighted average life – Aggregation	3.7 to 3.9 years	4.2 to 4.7 years
Weighted average life – Wholesale	3.0 to 4.4 years	1.8 to 3.9 years
Weighted average life – Total portfolio	3.9 years	4.3 years

Liabilities for trade creditors and other amounts are non-interest bearing and carried at amortised cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company. The terms and conditions for creditors and other liabilities are payable between 7 and 30 days.

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.1 Introduction and overview

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Group has exposure from its use of financial instruments to market, interest rate, credit, liquidity and operational risk. This note presents information about the Group's exposure to each of the above risks, the objectives, policies and processes for measuring and managing those risks, and the Company's management of capital.

Risk management framework

The Group's activities expose it to a variety of risks. Maintaining a robust risk management framework is critical to the Group's continued success and remains at the forefront of the Group's processes and business activities. The Group's risk management framework includes a dedicated risk function, various risk committees, risk appetite statements and limits and attestation processes.

Risk management roles and responsibilities

Board of Directors

The Board of Directors is responsible for the overall risk management framework and approving risk appetite, strategies and principles. The prudential standards issued by the (APRA) addresses risk management requirements and the Board carries out its responsibilities in ensuring the Group maintains appropriate risk settings relative to the size and the maturity of the Group's businesses.

Board Risk & Compliance Committee

Risk management is overseen by the Risk & Compliance Committee comprising non-executive directors of the Company. It assists the Board in the development of the risk strategy, managing and monitoring relevant risk decisions including policies and limits.

Chief Executive Officer & Executive Management

The Chief Executive Officer is responsible for the ongoing management of the risk management framework including its periodic review and renewal subject to requisite Board direction and approvals. Executive Management are responsible for implementing the Board-approved risk management strategy and for developing policies, procedures, processes and controls for identifying and managing risks.

Chief Risk Officer

The Chief Risk Officer is responsible for managing the risk management function. This includes assisting the Board, Board committees and divisional management risk committees to develop and maintain the risk management framework. The position has reporting lines to the Board, Board committees and senior management to conduct risk management activities in an effective and independent manner.

Internal Audit

Risk management and other processes in the Group are audited annually by the internal audit function, which examines both the adequacy of the procedures and compliance with the procedures. The results of the work of the internal audit function are tabled to management and to the Audit Committee.

Risk Measurement and Reporting Systems

Monitoring and controlling risks is primarily performed based on limits established by the Board of the Company. These limits reflect the business strategy and market environment of the Group as well as the level of risk the Group is willing to accept.

Information is compiled, examined and processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Risk & Compliance Committee and/or the Board. The reporting includes aggregate counterparty credit exposures, delinquency summary, loan security summary, loan type exposures, liquidity ratios, value at risk (VaR), and significant changes to risk profile. The Board and/or Risk & Compliance Committee receive summarised risk reporting on key risk measures.

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.1 Introduction and overview (continued)

Risk Mitigation
The Group actively manages risk through a framework that includes use of collateral, delegations, limit frameworks and credit concentrations.

Market risk
The objective of the Group's market risk management is to minimise risk and optimise desired return by managing and controlling market risk. Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities that will have an adverse effect on the Group's financial condition or results. Management of market risk is the responsibility of senior management through the Asset & Liability Committee (ALCO), who report directly to the Board. The Group does not operate a trading book or involve itself actively in foreign exchange, commodities or equity markets.

Interest rate risk
Interest rate risk is the risk of variability of the fair value of future cash flows arising from financial instruments due to the changes in interest rates. The Company is exposed only to interest rate risk arising from changes in market interest rates (Interest Rate Risk in the Banking Book).

5.1.2 Interest rate risk in the banking book
The Company is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets (loans and advances and investments) and liabilities (deposits). The interest rate risk in the banking book is monitored by management. The level of mismatch on the banking book is set out in the tables below which displays the period that each asset and liability will reprice as at the balance date.

The major classes of financial assets and liabilities that are subject to interest rate variation are loans and advances, cash with banks, investments and deposits. The fundamental principles that the Company applies to mitigate interest rate risk are:

- Board approved risk appetite and limits include Value at Risk and Book Sensitivity (Present Value Basis Point);
- Forecasting and scenario modelling of growth and interest rates;
- Monitoring current and future interest rate yields on its loans and savings portfolio and cash and investments and effect on profit and equity; and the interest rates on the major proportion of these assets and liabilities can be adjusted in the short-term to minimise any significant mismatch of interest margins
- Monitoring market rates for loans and savings and amending the Company's interest rates to remain competitive;
- Regular meetings to measure and monitor the impact of movements in interest rates.

5. RISK AND CAPITAL MANAGEMENT

5.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.2 Interest rate risk in the banking book (continued)

			Consolidated			
In thousands of AUD	**Weighted**	**Floating**	**Fixed interest rate**		**Non-interest**	**Amount per**
2020	**average effective interest rate (%)**	**interest rate**	**1 year or less**	**1 year or more**	**bearing**	**Statement of Financial Position**
Financial assets						
Cash and cash on hand	-	-	-	-	18,122	18,122
Due from other financial institutions	0.82	-	33,335	-	-	33,335
Investment securities	0.77	-	37,996	-	-	37,996
Loans and advances	3.74	269,573	6,568	7,420	-	283,565
Commission and other receivables	-	-	-	-	411,499	411,499
Sub-lease finance lease receivable	5.00	-	-	1,121	-	1,121
Other financial assets	-	-	-	-	235	235
Total financial assets		269,573	77,899	8,541	429,856	785,869
Financial liabilities						
Deposits	1.30	122,021	204,948	18,822	-	345,791
Lease liabilities	5.00	-	-	4,646	-	4,646
Commission and other payables	-	-	-	-	360,990	360,990
Total financial liabilities		122,021	204,948	23,468	360,990	711,427
Net financial assets/(liabilities)		147,552	(127,049)	(14,927)	68,866	74,442
2019						
Financial assets						
Cash and cash on hand	0.15	11,342	-	-	8,039	19,381
Due from other financial institutions	1.70	-	32,344	-	-	32,344
Investment securities	1.98	-	13,765	32,125	-	45,890
Loans and advances	4.81	190,740	11,212	12,212	-	214,164
Commission and other receivables	-	-	-	-	285,485	285,485
Other financial assets	-	-	-	-	304	304
Total financial assets		202,082	57,321	44,337	293,828	597,568
Financial liabilities						
Deposits	2.23	55,517	223,876	5,089	2,644	287,126
Commission and other payables	-	-	-	-	245,225	245,225
Total financial liabilities		55,517	223,876	5,089	247,869	532,351
Net financial assets/(liabilities)		146,565	(166,555)	39,248	45,959	65,217

5. RISK AND CAPITAL MANAGEMENT

5.1.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.2 Interest rate risk in the banking book (continued)

			Bank			
In thousands of AUD	**Weighted**	**Floating**	**Fixed interest rate**		**Non-interest**	**Amount per**
2020	**average effective interest rate (%)**	**interest rate**	**1 year or less**	**1 year or more**	**bearing**	**Statement of Financial Position**
Financial assets						
Cash and cash on hand	-	-	-	-	15,853	15,853
Due from other financial institutions	0.82	-	33,335	-	-	33,335
Investment securities	0.77	-	37,996	-	-	37,996
Loans and advances	3.74	270,763	6,568	7,420	-	284,751
Commission receivables	-	-	-	-	6,559	6,559
Other financial assets	-	-	-	-	142	142
Total financial assets		270,763	77,899	7,420	22,554	378,636
Financial liabilities						
Deposits	1.30	122,022	204,948	18,822	-	345,791
Lease liabilities	5.00	-	-	671	-	671
Creditors and other payables	-	-	-	-	1,114	1,114
Total financial liabilities		122,022	204,948	19,493	1,114	347,576
Net financial assets/(liabilities)		148,741	(127,049)	(12,073)	21,440	31,059
2019						
Financial assets						
Cash and cash on hand	0.15	9,392	-	-	8,039	17,431
Due from other financial institutions	1.70	-	32,344	-	-	32,344
Investment securities	1.98	-	13,765	32,125	-	45,890
Loans and advances	4.81	193,111	11,212	12,212	-	216,535
Commission receivables	-	-	-	-	-	-
Other financial assets	-	-	-	-	142	142
Total financial assets		202,503	57,321	44,337	8,181	312,342
Financial liabilities						
Deposits	2.23	55,517	223,876	5,089	2,644	287,126
Commissions payable	-	-	-	-	-	-
Creditors and other payables	-	-	-	-	1,035	1,035
Total financial liabilities		55,517	223,876	5,089	3,679	288,161
Net financial assets/(liabilities)		146,986	(166,555)	39,248	4,502	24,181

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.2 Interest rate risk in the banking book (continued)

Interest rate sensitivity
Taking into account past performance, future expectations, economic forecasts and management's knowledge and experience of the financial markets, the Group believes the impact on profit or loss and the impact on equity in the following table are 'reasonably possible' over the next 12 months, if interest rates had changed by +/- 25 basis points (2019: +/- 50 basis points) from the year-end rates, with all other variables held constant.

Judgement of reasonably possible movements(amounts in thousands of AUD):	**Consolidated higher (lower)**		**Bank higher (lower)**	
	2020	**2019**	**2020**	**2019**
25 basis points increase (2019: 50bps)	88	339	88	339
25 basis points decrease (2019: 50bps)	(88)	(339)	(88)	(339)

5.1.3 Market risk - Equity investments
The Group is exposed to market risk on the value of shares through its investments in Cuscal (refer to note 4.2) and an ASX listed company.

Market rate sensitivity
Taking into account past performance, future expectations, economic forecasts and management's knowledge and experience of the financial markets, the Group believes the impact on equity in the following table are 'reasonably possible' over the next 12 months, if the fair value of the investment had changed by +/- 10% (2019: +/- 10%) from the year-end rates, with all other variables held constant.

Judgement of reasonably possible movements (amounts in thousands of AUD):	**Consolidated Impact on equity**		**Bank Impact on equity**	
	2020	**2019**	**2020**	**2019**
10% increase (2019:10%)	16	21	10	10
10% decrease (2019: 10%)	(16)	(21)	(10)	(10)

5.1.4 Credit risk
Credit risk is the risk that the Group will incur a loss because its customers or counterparties failed to discharge their contractual obligations. New or potential exposures are subject to the Group's credit risk management framework. The credit risk management framework includes delegated limits, approval levels, collateral requirements, servicing criteria, concentration limits as well as other principles designed to manage the level of credit risk exposure.

Maximum exposures to credit risk
The maximum exposure to credit risk in the Bank equals the drawn down portion in the Statement of Financial Position and the undrawn portion of all committed facilities of loans and receivables as listed in Note 7.8. The maximum exposure to credit risk in the Aggregation and Wholesale businesses are in respect of accrued commission receivable and trade debtors. The major classes of financial assets that expose the Group to credit risk are loans to customers (including undrawn and unused credit commitments), cash with banks, investments and amounts due from other financial institutions and accrued commission receivable.

Collateral and other credit enhancements
Loans and advances, except unsecured overdrafts, are backed by collateral. The amount and type of collateral required depends on the assessment of the credit risk of the customer. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:
- For retail lending; mortgages over residential properties and consumer assets such as motor vehicles
- For commercial lending; mortgages over real estate properties and equitable charges over business assets

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

5.1.4 Credit Risk (continued)

Management monitors the market value of collateral however collateral is generally not revalued except in some circumstances where a loan is individually assessed as impaired or a customer seeks an increased loan against existing collateral. For residential lending the Group may also require the customer to acquire Mortgage Insurance where the loan does not meet a specified criteria, usually determined by the loan to value ratio.

The terms and conditions of collateral are specific to individual loan and security types. It is the Group's policy to dispose of repossessed collateral in an orderly fashion and the proceeds used to repay or reduce the outstanding claim. During the year ended 30 June 2020, the Group has repossessed one residential property with a fair value of $280,000 (2019: nil).

Concentrations of credit risk – Banking activities

The Group monitors concentration of credit risk by purpose. An analysis of concentrations of credit risk at the reporting date is shown below:

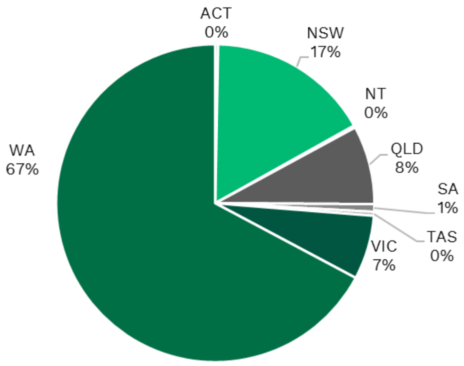
In thousands of AUD	Consolidated 2020 $	Consolidated 2019 $	Bank 2020 $	Bank 2019 $
Owner occupier home loans	127,889	111,732	127,889	111,732
Investment home loans	135,558	78,297	135,558	78,297
Commercial loans	18,796	22,377	19,982	24,748
Secured personal loans	723	1,105	723	1,105
Unsecured personal loans	130	208	130	208
Overdrafts	469	445	469	445
	283,565	214,164	284,751	216,535

As at 30 June 2020 there were no borrowers (2019: one) who individually have facilities which represent 10% or more of the regulatory capital base.

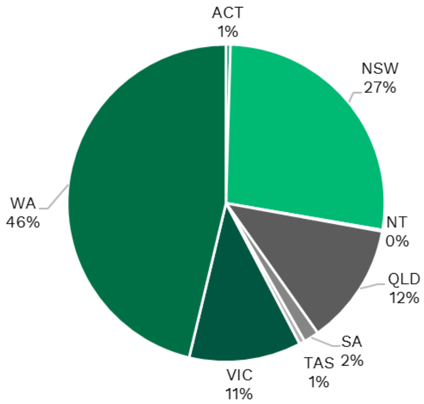
Historically, the Bank has been exposed to geographical concentration risk by lending predominately to customers in Western Australia. Since the completion of the merger with Finsure in 2018, the Bank's distribution capability has increased significantly, such that broader diversification of the loan portfolio can be achieved. The Group's objective is to continue reduce the concentration risk to Western Australian borrowers over time in order to benefit from a diversified loan book.

The graph below demonstrates the progress the Bank has made in the last 2 years in achieving this:

FY19 On Balance Sheet Loans



FY20 On Balance Sheet Loans



5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.4 Credit risk (continued)

i. Credit quality – loans and receivables

The credit quality of the Group's loans and receivables is summarised in the tables below:

In thousands of AUD	Consolidated 2020 $	Consolidated 2019 $	Bank 2020 $	Bank 2019 $
Past due but not impaired				
30 days & less than 90 days	1,359	877	1,359	877
90 days & less than 182 days	164	542	164	542
182 days or more	964	575	964	575
	2,487	1,994	2,487	1,994
Impaired – mortgage loans	-	-	-	-
Impaired – personal loans	-	-	-	-
Neither past due or impaired	281,078	212,170	282,264	214,541
Total loans and advances	283,565	214,164	284,751	216,535

The table above represents customers who were in arrears prior to the onset of COVID-19. The Company has agreed to vary repayment arrangements following the onset of the COVID-19 pandemic for certain customers. The table set out below summarises these arrangements as at 30 June 2020 (2019:nil).

In thousands of AUD	Residential mortgages $	SME loans $	Total $
Loans subject to temporary modification due to financial difficulty:	13,042	911	13,953
3 month interest only repayments	24	-	24
6 month interest only repayments	1,145	264	1,409
2 to 4 month repayment deferral	5,365	-	5,395
5 to 7 month repayment deferral	6,508	647	7,155

These represent a small proportion of BNK's customer base, and BNK has active engagement with these customers to assess and determine ongoing arrangements once the agreed deferral period becomes due to expire. The ECL provision includes COVID-19 overlays to reflect the enhanced risk profile of the current economic environment.

ii. Collateral – loans and receivables

The Group holds collateral and other credit enhancements against certain of its credit exposures. The table below sets out the principal types of collateral held against different types of financial assets:

Type of credit exposure	Percentage of exposure that is subject to collateral requirements 2020	2019	Principal type of collateral held
Deposits with banks and short-term securities	-	-	Marketable securities
Investment securities	-	-	Marketable securities
Residential loans	100	100	Residential property
Personal loans	84	85	Residential property and/or motor vehicles
Overdrafts	90	90	Residential property
Term loans	100	100	Commercial and/or residential property, floating charges over business assets

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.4 Credit risk (continued)

iii. Credit quality – Amounts due from other financial institutions and investment securities

The Group invests in short term securities and investment securities issued by other Australian banks as part of its liquidity management process (refer to note 5.1.5). The Group's liquidity investments are held with a range of Australian banks or Government agencies and are selected with reference to credit ratings determined by Standard & Poors or Moody's credit rating agencies.

Deposits with other banks and short-term securities

	Consolidated		Bank	
In thousands of AUD	**2020 $**	**2019 $**	**2020 $**	**2019 $**
Long Term Credit Rating				
1 (AAA to AA-)*	-	-		-
2 (A+ to A-)*	23,835	26,344	23,835	26,344
3 (BBB+ to BBB-)*	-	2,000	-	2,000
Unrated	9,500	4,000	9,500	4,000
	33,335	32,344	33,335	32,344

Investment securities

	Consolidated		Bank	
In thousands of AUD	**2020 $**	**2019 $**	**2020 $**	**2019 $**
Long Term Credit Rating				
1 (AAA to AA-)*	37,996	45,890	37,996	45,890
2 (A+ to A-)*	-	-	-	-
	37,996	45,890	37,996	45,890

** Or equivalent rating by other rating agencies*

Accrued commission receivable and other debtors

	Consolidated		Bank	
In thousands of AUD	**2020 $**	**2019 $**	**2020 $**	**2019 $**
Long Term Credit Rating				
1 (AAA to AA-)*	246,576	173,914	2,898	-
2 (A+ to A-)*	37,054	26,579	-	-
3 (BBB+ to BBB-)*	32,814	24,414	-	-
Unrated	87,304	59,623	3,661	3,379
	403,748	284,530	6,559	3,379

** Or equivalent rating by other rating agencies*

The Group's other outstanding receivables arise from transactions with customers located within Australia. The amounts owing from other financial institutions include the net present value (NPV) of future trail commission receivable and accrued commission income.

The majority of the Group's NPV trail commission and accrued commission receivable is from counterparties that are rated between BBB and AA-.

5.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.4 Credit risk (continued)

Accounting policy - Recognition and measurement

As set out in note 3.2, loans are considered to be in default when they reach 90 days past due. An assessment is then made to determine whether loans are classified as impaired or past due.

Impaired loans
Loans for which the Company determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan.

Past due but not impaired loans
Loans where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

Loans with renegotiated terms
The Group renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of loss. Loans that have been restructured due to deterioration in the borrower's financial position are considered on a selective basis where the borrower has demonstrated reasonable efforts to meet their commitments, and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category for 12 months independent of satisfactory performance after restructuring.

Allowances for impairment
Refer to note 3.2 for the Group's policy with respect to provisioning for expected credit losses.

Write-off policy
Bad debts are written off as determined by management and recommended to the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off as expenses in the Income Statement or against the provision for impairment.

Where the Group holds collateral against loans and advances, it is in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. These estimates are generally only updated when loan is individually assessed as impaired.

5.1.5 Liquidity risk

Liquidity risk is the risk that the company will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient funds available to meet its liabilities under both normal and stressed conditions, without incurring unacceptable losses. Sources of liquidity risk include unforeseen withdrawals of demand deposits, increased demand for loans and drawdown on available credit limits, and inability to liquidate a marketable asset. The Group maintains a portfolio of short term liquid assets to ensure that sufficient liquidity is maintained for daily operational requirements.

The Group has documented its strategy to manage liquidity risk in a liquidity policy and liquidity management plan which includes the following activities by Management:
- On a daily basis, an assessment is made of the daily cash position and the investment action to be undertaken.
- On a daily basis, a summary of the Group's liquidity position, including movements in major liquid assets and liabilities is reviewed.
- On a monthly basis, the liquidity position is reported to the Board, including an explanation of significant movements and corrective action taken, where applicable.
- Regularly reporting current and emerging liquidity management trends to the Board and highlighting risk areas and relevant market conditions/expectations.

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.5 Liquidity risk (continued)

The Group's policy is to apply a minimum level of 13% (2019: 13%) of funds as liquid assets to maintain adequate funds for meeting customer withdrawal requests. This ratio is checked daily. In order to minimise the risk of the liquidity ratio falling below 13% (2019: 13%); the Board has determined a target liquidity trading range of 14% - 19% in normal market situations. Since the impact of COVID-19 became prevalent in early calendar year 2020, the Board recommended the Group hold higher levels of liquidity above this range. In the event that liquidity ratio falls below 13% or is considered to be at risk of falling below that level, specific remedial measures are required to be taken by the Board and Management.

Deposits are the liability class that presents the major source of risk to the Group's liquidity management. Concentrations within this class of financial liability are measured in terms of exposures to individual depositors and groups of related depositors. As at 30 June 2020 there were no deposits greater than 10% of total liabilities (2019: nil).

The liquidity ratio is calculated based on the formula prescribed by APRA in APS 210 as summarised below:

	Consolidated		**Bank**	
In thousands of AUD	**2020 $**	**2019 $**	**2020 $**	**2019 $**
High quality liquid assets	90,197	90,321	87,177	87,625
Adjusted liability base for regulatory purposes	348,719	397,411	331,771	328,807
Liquidity ratio	25.9%	22.7%	26.2%	26.6%

5.1.6 Operational risk

Operational risk is a risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks (such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour). Operational risks arise from all of the Company's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial loss and damage to the Group's reputation, against excessive cost and control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of the Company's overall standards for management of operational risk in the following areas:

- Compliance with regulatory and other legal requirements
- Third party supplier relationships
- Business continuity and contingency planning
- People and key person risk including training and professional development
- Outsourcing risk associated with materially outsourced services
- Competition risk
- Fraud risk
- Requirements for appropriate segregation of duties, including independent authorisation of transactions
- Requirements for the reconciliation and monitoring of transactions
- Documentation of controls and procedures. These were enhanced significantly prior to the closure of the branches during the period
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- Requirements for the reporting of operational losses and proposed remedial action
- Ethical and business standards
- Risk mitigation, including insurance where this is effective

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.6 Operational risk

The Group experienced a significant operational risk event in the year ended 30 June 2020 in relation to its ATM bailment business (refer to note 4.1.1 for further details). As a result, the Group has now exited this line of business.

Resources for lending, operations and aggregation processes are reviewed regularly and significant investment has occurred in the current year in people and processes to enhance the operational risk management framework. Following the onset of COVID-19, work from home practices were implemented across the Group in order to protect our people from the risk of the disease. Security of data and restriction of access to IT systems was a key area of focus to ensure the businesses of the Group could continue to function and service customers and brokers effectively, without increasing risk of data breaches. This was a controlled and managed process with oversight by the Board. Staff in certain locations have commenced a return to office process on a staged basis.

5.1.7 Fair value of financial assets and liabilities

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

The Group measures most financial instruments at amortised cost, however disclosure of fair value is made throughout these financial statements.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Fair value is determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset or liability. Significant assumptions used in determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts. The information is only relevant to circumstances at the reporting date and will vary depending on the contractual rates applied to each asset or liability, relative to market rates and conditions at the time. No assets held are regularly traded by the Group. Investments in listed entities are tradeable on public markets and are classified as Level 1 financial assets in the fair value hierarchy. Amounts due from other financial institutions, investment securities and investments in Cuscal Limited can be traded in a secondary market. The investment in Cuscal is classified as a Level 2 financial asset in the fair value hierarchy.

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.7 Fair value of financial assets and liabilities (continued)

	Consolidated			
	Fair value		Carrying amount	
In thousands of AUD	**2020 $**	**2019 $**	**2020 $**	**2019 $**
Financial assets				
Cash and cash equivalents	18,122	19,381	18,122	19,381
Accrued commission receivable	16,551	12,826	16,551	12,826
Due from other financial institutions	33,335	32,344	33,335	32,344
Investment securities	37,948	46,545	37,996	45,890
Loans and advances	287,637	225,830	283,561	214,323
Other receivables	8,872	2,343	8,872	2,343
Other financial assets	235	304	235	304
Total financial assets	402,700	339,573	398,672	327,411
Financial liabilities				
Deposits	345,791	287,126	345,791	287,126
Accrued commission payable	15,300	11,652	15,300	11,652
Lease liability	4,646	-	4,646	-
Creditors and other payables	2,736	3,158	2,736	3,158
Total financial liabilities	368,473	301,936	368,473	301,936
	Bank			
Financial assets				
Cash and cash equivalents	15,853	17,431	15,853	17,431
Due from other financial institutions	33,335	32,344	33,335	32,344
Investment securities	37,948	46,545	37,996	45,890
Loans and advances	289,282	225,830	285,206	216,891
Other receivables	6,560	2,976	6,560	2,976
Other financial assets	142	142	142	142
Total financial assets	383,120	325,268	379,092	315,674
Financial liabilities				
Deposits	345,791	287,126	345,791	287,126
Lease liability	671	-	671	-
Creditors and other payables	1,114	1,035	1,114	1,035
Total financial liabilities	347,576	288,161	347,576	288,161

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.7 Fair value of financial assets and liabilities (continued)

The fair value estimates were determined by the following methodologies and assumptions:

Cash and Amounts Due from other financial institutions
The carrying values of cash and liquid assets and receivables due from other financial institutions redeemable within 12 months approximate their fair value as they are short term in nature or are receivable on demand.

Accrued commission receivable and other receivables
The carrying values of receivables approximate fair value as they are short term in nature and collected within 12 months.

Loans and advances
The carrying value of loans and advances is net of provisions for doubtful debts. For variable rate loans, (excluding impaired loans) the amount shown in the statement of financial position is considered to be a reasonable estimate of fair value. For fixed rate loans the fair values are based on cash flows discounted at a rate reflecting current market rates adjusted for counterparty credit risk.

Investment Securities
Investment Securities comprise floating rate notes issued by Australian banks and bonds issued by the Commonwealth and state governments. These securities can be traded in secondary markets and fair value has been determined by indicative prices as quoted on Bloomberg.

Other financial assets
Refer to Note 4.2, the balance comprises equity instruments.

Deposits
The fair value of call and variable rate deposits, and fixed rate deposits repricing within 12 months, is the amount shown in the statement of financial position. Discounted cash flows were used to calculate the fair value of other term deposits, based upon the deposit type and the rate applicable to its related period maturity.

Accrued commission payable, creditors and other payables
The carrying values of payables approximate fair value as they are short term in nature.

5.2 CAPITAL MANAGEMENT

5.2.1 Overview

The Group is licensed as an Authorised Deposit-taking Institution (ADI) under the Banking Act 1959 and is subject to prudential supervision by APRA.

The Group has documented its strategy to manage capital in its internal capital adequacy assessment process which includes the capital management plan. The Standards include APS 110 Capital Adequacy which:
- Imposes on the Board a duty to ensure that the Company and Group maintains an appropriate level and quality of capital commensurate with the level and extent of the risks to which the Company and Group is exposed from its activities; and
- Obliges the Company and Group to have in place an Internal Capital Adequacy Assessment Process (ICAAP).

Three Pillars – There are three pillars to the Basel III capital framework.
Pillar 1 – involves specific capital charges for credit risk, operational risk, and the risk of financial market trading activities.
Pillar 2 – involves the Company making an assessment of any additional capital necessary to cover other risks not included in Pillar 1.
Pillar 3 – involves increased reporting by the Company to APRA.

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.2 CAPITAL MANAGEMENT

5.2.1 Overview (continued)

The Board has determined that, for the Company, the prudent level of capital is the sum of the following:
- the specific capital charge for Pillar 1 risks
- the additional capital required to cover Pillar 2 risks, where applicable
- a buffer to cover other capital factors, where applicable

Various limits are applied to elements of the capital base. The main deductions from capital include deferred tax assets, intangible assets, equity investments in other ADI's and goodwill.

The Group's policy is to apply a minimum target of 17.0% capital (2019: 17.0%).

In accordance with the Group's capital management objectives, the Company's and Group's regulatory minimum capital requirements were exceeded at all times throughout the year.

	Consolidated		Bank	
In thousands of AUD	**2020**	**2019**	**2020 $**	**2019 $**
Tier 1 capital	31,278	25,317	30,082	26,395
Tier 2 capital	446	446	446	446
Total regulatory capital	31,724	25,763	30,528	26,841
Risk weighted assets	149,519	126,579	147,532	125,849
Capital adequacy ratio	21.22%	20.35%	20.69%	21.33%

Disclosures required under Prudential Standard APS 330 Public Disclosure can be located on our website at: https://bnk.com.au/investor-centre/disclosure-statements/.

5.2.2 Share capital

		Bank	
In thousands of AUD	**Note**	**2020 $**	**2019 $**
Share capital		106,270	99,188

Movements in ordinary shares on issue		**Number of shares**	**2020 $**	**Number of shares**	**2019 $**
Beginning of the financial year		82,415,399	99,188	25,907,066	24,080
Issued during the year in a placement		11,700,000	7,020	15,385,000	20,002
Acquisition of Finsure		-	-	40,750,000	52,975
Exercise of performance rights		155,000	62	373,333	301
Expiry of unlisted options	5.2.3	-	-	-	1,830
		94,270,399	106,270	82,415,399	99,188
Less equity raising costs	5.2.4	-	(2,754)	-	(2,620)
		94,270,399	103,516	82,415,399	96,568

Terms and conditions of ordinary shares

The Company does not have authorised capital nor par value in respect of its issued capital.

Ordinary fully paid shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary fully paid shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.2 CAPITAL MANAGEMENT

5.2.3 Other contributed equity

	Bank	
	2020 **$**	**2019** **$**
Balance at the beginning of the year	-	1,830
Transfer to share capital upon expiry of listed options	-	(1,830)
Balance at the end of the year	-	-

As part of the public offer of ordinary shares in Goldfields Money Limited in May 2012, 4,500,000 options were issued, with one option attached to every two ordinary shares subscribed to under the offer. The unlisted options had an exercise price of $1.50 and an expiry date of 11 May 2019. The options lapsed unexercised. The fair value of the options that was recognised as other contributed equity has been transferred to share capital.

5.2.4 Equity raising costs

	Bank	
	2020 **$**	**2019** **$**
Balance at the beginning of the year	2,621	1,631
Equity raising costs incurred	40	1,277
Deferred tax recognised directly in equity	93	(287)
Balance at the end of the year	2,754	2,621

Accounting policy - Recognition and measurement

The transaction costs of a new equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. Transaction costs include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties.

5.2.5 Treasury shares reserve

	Bank	
	2020 **$**	**2019** **$**
Balance at the beginning of the year	-	-
Acquired during the year to fulfil the exercise of performance rights	(103)	-
Balance at the end of the year	(103)	-

Pursuant to the BNK Equity Incentive Plan, the Company may issue new shares or acquire shares on market to allocate to staff upon exercising performance rights as set out in note 7.4.2. At 30 June 2020, the Company does not hold any treasury shares.

Accounting policy - Recognition and measurement

When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury shares reserve. When treasury reserve shares are sold or reissued subsequently, the amount received is recognised as an increase equity and the resulting surplus or deficit is retained within the reserve.

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.3 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the net profit or loss for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit or loss attributable to ordinary equity holders of the Company adjusted for the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Consolidated	
In thousands of AUD	**2020 $**	**2019 $**
Net profit/(loss) attributable to ordinary share holders	5,324	3,614

Weighted average number of ordinary shares	**2020**	**2019**
for basic earnings per share	86,727,399	70,324,932
for diluted earnings per share	88,274,386	71,558,495
Basic earnings per share (cents)	6.14	5.14
Diluted earnings per share (cents)	6.03	5.05

5.4 DIVIDENDS PAID OR PROPOSED AND FRANKING ACCOUNT

No dividend was paid or declared by the Company in the period and up to the date of this report. The Directors do not recommend that any amount be paid by way of dividend, for the financial period ended 30 June 2020 (2019: nil).

Franking credit balance

In thousands of AUD	**2020 $**	**2019 $**
The amount of franking credits available for the subsequent financial years are:		
Franking account balance as at the end of the financial year at 30% (2019: 30%)	2,542	2,540
Franking credits that will arise from the payment/(receipt) of income tax payable/receivable as at the end of the financial year	-	-
Franking credits that arise from the receipt of franked dividends	2	2
Franking credits available for subsequent reporting periods at 30% (2019: 30%)	2,544	2,542

6. GROUP STRUCTURE

6.1.1 Investments in subsidiaries

		Bank	
In thousands of AUD	**Note**	**2020 $**	**2019 $**
Investments in subsidiaries at cost	6.1.2	61,925	61,925

Subsidiaries

Subsidiary name	**Segment**	**Ownership 2020**	**Ownership 2019**
Finsure Holding Pty Ltd	Aggregation	100%	100%
Finsure Finance & Insurance Pty Ltd	Aggregation	100%	100%
Finsure Domain Names Pty Ltd	Aggregation	100%	100%
Finsure Wealth Pty Ltd	Aggregation	100%	100%
Beagle Finance Pty Ltd	Aggregation	100%	100%
Smart Finance & Wealth Pty Ltd	Aggregation	100%	100%
1300 Home Loan Holdings Pty Ltd	Aggregation	100%	100%
Mystro CRM Pty Ltd	Aggregation	100%	100%
Wikibroker Pty Ltd	Aggregation	100%	100%
Australian Asset Aggregation Pty Ltd	Aggregation	51%	51%
Fintek Pty Ltd	Aggregation	60%	60%
Iden Holdings Pty Ltd	Wholesale	100%	100%
Better Choice Home Loans Pty Ltd	Wholesale	100%	100%
Future Financial 1 Pty Ltd	Wholesale	100%	100%
Pioneer Mortgage Holdings Pty Ltd	Wholesale	100%	100%
Romavale Pty Ltd	Wholesale	100%	100%
Australian Capital Home Loans Pty Ltd	Wholesale	100%	100%
Bare 123 Pty Ltd	N/A - Dormant	100%	100%

Accounting policy - Recognition and measurement

'Subsidiaries' are entities controlled by the Group. The Group 'controls' an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at date of acquisition, and not considered material to the Group.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Business Combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisitions is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

6.1.2 Deed of Cross Guarantee

Pursuant to *ASIC Corporations (Wholly owned Companies) Instrument 2016/785* the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgment of financial reports and Directors' reports:

- Finsure Holding Pty Ltd
- Finsure Finance & Insurance Pty Ltd
- Beagle Finance Pty Ltd

It is a condition of the Instrument that the subsidiaries agreeing to guarantee each other's' liabilities ("the Closed Group") enter into a Deed of Cross Guarantee. The Company, as an APRA regulated ADI is prevented from guaranteeing its subsidiaries liabilities, and therefore isn't a party to the Deed of Cross Guarantee. The effect of the Deed is that each entity listed above guarantees to each creditor payment in full of any debt in the event of a winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up of a subsidiary party to the Deed occurs under other provisions of the Act, the remaining subsidiary/(ies) will only be liable in the event that after six months any creditor has not been paid in full.

A consolidated statement of comprehensive income and consolidated statement of financial position, comprising the three entities party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee for the year ended 30 June 2020 is set out as follows:

Income Statement for the Closed Group

In thousands of AUD	**2020 $**
Commission income	279,046
Commission expense	(265,228)
Net commission income	13,818
Interest income	166
Interest expense	(439)
Net interest income/(expense)	(273)
Other income	8,596
Total net revenue	22,141
Operating expenses	(12,150)
Profit before income tax from continuing operations	**9,991**
Income tax expense	(2,901)
Net profit after tax	**7,090**
Items that will be reclassified to profit and loss	
Revaluation of financial assets	(97)
Total comprehensive income for the period, net of tax	**6,993**

Statement of Financial Position for the Closed Group

In thousands of AUD	**2020 $**
Assets	
Cash and cash equivalents	1,164
Trade and other receivables	377,542
Other financial assets	11,702
Property, plant and equipment	2,232
Goodwill and other intangibles	3,502
Total assets	**396,142**
Liabilities	
Trade and other payables	355,128
Provisions	702
Deferred tax liabilities	3,592
Total Liabilities	**359,422**
Net assets	**36,720**
Share capital	8,950
Reserves	(84)
Retained earnings	27,854
Total equity	**36,720**

7. OTHER NOTES

7.1 Property, plant and equipment

In thousands of AUD	Note	Consolidated 2020 $	Consolidated 2019 $	Bank 2020 $	Bank 2019 $
Freehold land and buildings – at fair value		-	520	-	520
Accumulated depreciation		-	(14)	-	(14)
		-	506	-	506
Office equipment and leasehold improvements		1,131	1,343	48	280
Accumulated depreciation		(851)	(1,019)	(19)	(227)
		280	324	29	53
Motor vehicles		44	88	44	88
Accumulated depreciation		(20)	(31)	(20)	(31)
		24	57	24	57
Computer equipment and IT hardware		676	749	283	357
Accumulated depreciation		(453)	(439)	(196)	(238)
		223	310	87	119
Right of use assets		4,191	-	761	-
Accumulated depreciation		(910)	-	(157)	-
		3,281	-	604	-
Total property, plant and equipment		3,808	1,197	744	735

Reconciliations of the carrying value for each class of property, plant and equipment are set out below:
Please try to fit highlighted items below into a single row thanks

Consolidated

In thousands of AUD	Freehold Land & Buildings $	Right of Use Asset $	Office Equip & L/H imp $	Motor vehicles $	Computer equip & IT hardware $	Total $
Opening written down value at 1 July 2019	506	3,371	324	57	310	4,568
Additions	-	820	22	-	25	867
Disposals	(499)	-	(10)	(23)	(36)	(568)
Depreciation	(7)	(910)	(56)	(10)	(76)	(1,059)
Closing written down value at 30 June 2020	-	3,281	280	24	223	3,808

Bank

In thousands of AUD	Freehold Land & Buildings $	Right of Use Asset $	Office Equip & L/H imp $	Motor vehicles $	Computer equip & IT hardware $	Total $
Opening written down value at 1 July 2019	506	761	53	57	119	1,496
Additions	-	-	3	-	25	28
Disposals	(499)	-	(10)	(23)	(5)	(537)
Depreciation	(7)	(157)	(17)	(10)	(52)	(243)
Closing written down value at 30 June 2020	-	604	29	24	87	744

7. OTHER NOTES

7.1 Property, plant and equipment (continued)

A significant increase (decrease) in estimated fair net rental in isolation would result in a significantly higher (lower) value. A significant increase (decreases) in estimated capitalisation rate in isolation would result in a significantly lower (higher) value. The revaluation adjustment net of applicable deferred income taxes was debited to an asset revaluation reserve in shareholders' equity.

During the year ended 30 June 2020, the Company closed its Kalgoorlie and Esperance branches. Sale of the Kalgoorlie building was completed on 30 June 2020 and the Esperance lease expires 28 August 2020.

The Group has adopted AASB 16 Leases with effect from 1 July 2019 utilising the modified retrospective approach. Refer to note 8.2 for further details.

Accounting policy - Recognition and measurement

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property
Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Increases in the carrying amount arising on revaluation of land and buildings are recorded in other comprehensive income and credited to a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the profit and loss.

Plant and Equipment
Plant and equipment are measured on the cost basis less depreciation and impairment losses. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows are discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Right of use assets

The Group has recognised right of use assets relating to its leases pursuant to AASB 16 Leases. Refer to note 8.2 for details.

7. OTHER NOTES

7.1. Property, plant and equipment (continued)

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation rate	Method of Depreciation
Office plant and equipment and Leasehold improvements	15-33%	Straight-line
Right of use assets	20-33%	Straight-line
Motor vehicles	12.5%	Straight-line
Computer equipment and programs	20-50%	Straight-line

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to profit or loss.

7.2 Goodwill and other intangible assets

In thousands of AUD	Consolidated 2020 $	Consolidated 2019 $	Bank 2020 $	Bank 2019 $
Goodwill – at cost	19,172	19,172	-	-
Brandnames, trademarks and domain names	16,557	16,527	162	132
Software	14,254	10,691	5,085	3,274
Accumulated amortisation	(2,780)	(1,832)	(438)	(302)
	11,474	8,859	4,647	2,972
Broker relationships	4,075	4,075	-	-
Accumulated amortisation	(1,668)	(1,415)	-	-
	2,407	2,660	-	-
Total goodwill and other intangibles	49,610	47,218	4,809	3,104

Reconciliation of intangible assets

In thousands of AUD	Consolidated Goodwill	Consolidated Brand names & trademarks $	Consolidated Software $	Consolidated Broker relationships $	Consolidated Total $
Opening balance at 1 July 2019	19,172	16,527	8,859	2,660	47,218
Additions	-	30	3,564	-	3,594
Amortisation	-	-	(949)	(253)	(1,202)
Closing balance at 30 June 2020	19,172	16,557	11,474	2,407	49,610

7. OTHER NOTES

7.2 Goodwill and other intangible assets (continued)

Reconciliation of intangible assets

In thousands of AUD	Goodwill	Brand names & trademarks	Bank Software	Broker relationships	Total
		$	$	$	$
Opening balance at 1 July 2019	-	132	2,972	-	3,104
Additions	-	30	3,564	-	1,841
Amortisation	-	-	(136)	-	(136)
Closing balance at 30 June 2020	-	162	4,647	-	4,809

Accounting policy - recognition and measurement

Goodwill and other intangible assets with a finite life recognised upon acquisition of subsidiaries are measured at cost less accumulated impairment losses.

Costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to computer software. Costs capitalised include external direct costs of materials, service, consultants spent on the project and internal costs of employees directly engaged in delivering the project. For software in the course of development, amortisation commences once development is complete and the software is in use.

Other intangible assets are recognised at cost less accumulated amortisation and impairment losses.

Subsequent expenditure is recognised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands is recognised in profit or loss.

Amortisation

Amortisation is calculated to write-off the asset less its estimated residual value using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill is not amortised, but tested annually for impairment.

The estimate useful lives of intangible assets with a finite useful life are as follows:

- Software 3-10 years
- Broker relationships 6 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted as appropriate.

Impairment testing for CGUs containing goodwill

For the purpose of impairment testing, goodwill has been allocated to the Group's cash generating units (CGUs) as follows:

In thousands of AUD	2020	2019
	$	$
Aggregation	12,000	12,000
Wholesale	1,000	1,000
Banking	6,172	6,172
Total goodwill	19,172	19,172

7. OTHER NOTES

7.2 Goodwill and other intangible assets (continued)

Each CGU was tested for impairment using the value in use approach, by discounting future cash flows estimated from the continuing use of each CGU. The recoverable amount for each CGU was determined to be above the carrying amount.

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

Input	**2020**	**2019**
Discount rates (post-tax)	11%	12-14%
Terminal value growth rate	2.5%	2.5%
Budgeted revenue growth rates	11-42%	5-38%

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

Budgeted revenue was based on the Group's plans for each CGU taking into account past experience and adjustments regarding expectations of future outcomes, including the potential impacts of COVID-19.

No impairment loss has been recognised for any CGU at 30 June 2020.

Management has estimated that a reasonably possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount, being the discount rate or budgeted revenue growth rates. The following table shows the amount by which these assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

Input	**Aggregation**	**Wholesale**	**Banking**
Discount rates (post-tax)	0.7%	11.5%	1.8%
Average budgeted revenue growth	(1.3%)	(11.4%)	(4.1%)

7.3 Provisions

		Consolidated			**Bank**
In thousands of AUD	**Note**	**2020**	**2019**	**2020**	**2019**
		$	**$**	**$**	**$**
Provision for annual leave		992	973	216	275
Provision for long service leave		316	319	3	99
Total provisions		1,308	1,292	219	374

Accounting policy - recognition and measurement
Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the reporting date. Employee benefits that are due to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Contributions are made by the Group to employee nominated superannuation funds and are charged as expenses when incurred.

7. OTHER NOTES

7.4 Related Party Disclosures

Information regarding individual Directors and Executive compensation and some equity instrument disclosures as required by the Corporations Regulation 2M.3.03 is provided in the Remuneration Report section of the Directors' report. Disclosure of the compensation and other transactions with key management personnel (KMP) is required pursuant to the requirements of Australian Accounting Standard AASB 124 Related Party Disclosures. The KMP of the Company comprises the Non-Executive Directors and Executives.

7.4.1 Key Management Personnel (KMP)

The aggregate compensation of KMP during the year comprising amounts paid or payable or provided for was as follows:

In thousands of AUD	**2020 $**	**2019 $**
Short-term employee benefits	3,136	2,011
Post-employment benefits	218	102
Other long-term benefits	182	611
Termination benefits	212	-
	3,748	2,724

In the above table, remuneration shown as short term benefits means (where applicable) wages, salaries and other contributions, paid annual leave and paid sick leave, and bonuses, value of fringe benefits received, but excludes out of pocket expense reimbursements.

7.4.2 Share-Based Payments

Shareholders of the Company approved the continuation of the BNK Equity Incentive Plan or ("the Plan") at the 2019 Annual General Meeting. Pursuant to the terms of the Plan, executives and employees may be offered performance rights that entitle the executive to the Company delivering fully paid ordinary shares, either issued by the Company or acquired on market at the election of the Board. Additionally, the Plan enables the Company to grant fully paid ordinary shares to employees from time to time.

Performance rights – grant dates

- On 9 February 2017, 1,700,000 performance rights were granted to executives in accordance with the terms of the BNK Equity Incentive Plan (BNKEIP). Mr Lyons exercised 333,333 of these performance rights during the year ended 30 June 2019, and the remainder were exercised on 5 August 2020. On 5 December 2019, Mr Ellis exercised 125,000 of his performance rights;
- On 30 October 2017, 200,000 performance rights were granted to two executives and two employees in recognition of their performance for the year ended 30 June 2017 ('FY17 Bonus'). Vesting of these performance rights was approved by the Board in September 2018, and 150,000 have been exercised to date.
- On 20 December 2017, 7,000 ordinary shares were issued to several employees.
- On 1 November 2018, 100,000 performance rights were granted to four employees in recognition of their performance for the year ended 30 June 2018 ('FY18 Bonus'). These performance rights vest subject to the employees remaining employed by the Company until 1 July 2020. As this condition has been met, these performance rights have vested subsequent to balance date.
- On 16 April 2019, 500,000 performance rights were awarded to three senior employees of Finsure as retention rights. One third of these performance rights each vest on 1 July 2019, 1 July 2020 and 1 July 2021. For the first tranche that vested on 1 July 2019, 133,332 have been exercised.
- On 5 December 2019, 250,000 performance rights were awarded to five employees in recognition of their performance for the year ended 30 June 2019 ('FY19 Bonus"). One third of these performance rights vest on 30 September 2020, 30 September 2021 and 30 September 2022 subject to the approval of the Remuneration Committee and continued service.

7. OTHER NOTES

7.4.2 Share-Based Payments (continued)

Performance rights – fair value and vesting conditions

a) The fair value of the BNKEIP performance rights has been measured using a Monte Carlo simulation. The inputs used in the measurement of the fair values at grant date of the BNKEIP performance rights are summarised below.

The key terms and conditions related to the grants under the BNKEIP are as follows; all performance rights are to be settled by the physical delivery of shares.

The inputs used in the measurement of the fair values at grant date of the BNKEIP performance rights were as follows:

Fair value at grant date	$0.2613 to $0.7830
Share price at grant date	$1.02
Exercise price	Nil
Expected volatility	31.54%
Expected dividends	Nil
Risk free interest rate (based on government bonds)	2.13%

The amount recognised for the period ended 30 June 2020 in relation to the BNKEIP performance rights was $128,168 (2019: $309,884).

b) The fair value of the FY17 Bonus performance rights of $236,000 was determined with reference to the share price on the grant date of $1.18. The fair value of the grant is being recognised over the 32 month vesting period. The amount recognised in profit and loss for the year ended 30 June 2020 in relation to these performance rights was $88,439 (2019: $88,681).

d) The fair value of the FY18 Bonus performance rights of $90,000 was determined with reference to the share price on the grant date of $0.90. The fair value of the grant is being recognised over the 20 month vesting period. The amount recognised in profit and loss for the year ended 30 June 2020 in relation to these performance rights was $54,177 (2019:$35,674).

e) The fair value of the retention performance rights of $315,000 was determined with reference to the share price on the grant date of $0.63. The fair value of the grant is being recognised over the respective vesting period of each tranche. The amount recognised in profit and loss for the year ended 30 June 2020 in relation to these performance rights was $135,947 (2019:$131,192.)

f) The fair value of the FY19 Bonus performance rights of $145,000 was determined with reference to the share price on the grant date of $0.58. The fair value of the grant is being recognised over the respective vesting period of each tranche. The amount recognised in profit and loss for the year ended 30 June 2020 in relation to these performance rights was $58,390.

Other share based-payments: Equity settled shares

On 22 December 2017, 7,000 fully paid ordinary shares were issued to employees in connection with their performance for the year ended 30 June 2017. The shares will be held in escrow and released to the employees subject to their continued service until 1 July 2020. The fair value of the shares issued is $1.00 per share and the fair value of $7,000 is being recognised over the vesting period until 30 June 2020. The amount recognised in profit and loss for the year ended 30 June 2020 in relation to these shares was $2,337 (2019: $2,331) and these shares have now vested.

7. OTHER NOTES

7.4.2 Share-Based Payments (continued)

Accounting policy - recognition and measurement

The grant date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense with a corresponding increase in equity over the vesting period of the awards. The amount recognised is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the awards that meet the related service and non-market performance conditions at the vesting date.

7.4.3 Transactions with KMP

The Company's policy for lending to Directors and management is that all loans are approved and deposits accepted on the same terms and conditions that applied to the general public for each class of loan or deposit. There are no loans that are impaired in relation to the loan balances with Directors or other KMPs.

The Company's policy for receiving deposits from KMP is that all transactions are approved and deposits accepted on the same terms and conditions that applied to the general public for each type of deposit.

	2020 $	2019 $
Total value of term and savings deposits from KMP at reporting date	4,442	44,322
Total interest paid/payable on deposits to KMP	109	1,171
Total value of loans to KMP at reporting date	492,354	-
Total interest received/receivable from on loans from KMP	36,386	-

7.4.4 Transactions with other related parties

Other transactions between related parties include deposits from Director related entities or close family members of Directors, and other KMP. The Company's policy for receiving deposits from related parties is that all transactions are approved and deposits accepted on the same terms and conditions that applied to customers for each type of deposit. There are no benefits paid or payable to the close family members of the KMP.

7.4.5 Jon Denovan - Dentons

Mr Denovan was elected as a non-executive director in September 2019. Currently, Mr Denovan is a Partner with the national legal firm, Dentons for which payments for legal services have been made on normal commercial terms. Services include corporate advice, lending document reviews, license compliance services and loan settlements.

	2020 $
Legal service paid/payable during the year to Dentons	131,060
Amounts (owing)/payable at balance date	491

7. OTHER NOTES

7.4.6 John Kolenda – Aura Group Holdings Pte Ltd

Mr Kolenda is Chairman and major shareholder of Aura Group Holdings Pte Ltd and its controlled entities (Aura Group). The Group's subsidiary, Finsure Holding Pty Ltd has a sub-lease agreement with Aura Group and in addition pays/recoups a number of shared costs relating to the tenancy and certain employees. Amounts disclosed below relate to the period since 17 September 2018.

	2020 $	**2019 $**
Sub-lease income and other amounts recouped for services from Aura Group	446,325	635,101
Amounts paid to Aura Group for services	-	263,933
Amounts receivable from Aura Group	79,824	194,495

7.5 Auditor's remuneration

Auditors of the Group – KPMG

In AUD	**2020 $**	**2019 $**
Audit and review of the financial statements	291,270	267,000
Regulatory audit services	109,000	89,000
Total audit and assurance services	400,270	356,000
Accounting and tax opinions	50,000	-
Other advisory services	-	7,000
Total advisory and other services	50,000	7,000
Total amounts paid/payable to KPMG	450,270	363,000

Pursuant to the Company's policy, the Chair of the Audit Committee approves non-audit services prior to their commencement. The Directors are satisfied the provision of non-audit services has complied with the auditor independence requirements in Australia.

7. OTHER NOTES

7.6 Standby borrowing facilities

The Company has an overdraft facility of $1,200,000 (2019: $1,200,000) with CUSCAL Ltd which is secured by a cash deposit. As at 30 June 2020, the entire facility was unused (2019: $nil).

7.7 Material service contracts

The Group has service contracts with and is economically dependent upon the following suppliers:

(a) CUSCAL Ltd
CUSCAL provides central banking services, chequing services, card services, settlement services, and maintains the applications software used by the Company. This company operates the switching facilities used to link Redicards operated through rediATMs, and other approved electronic funds transfer suppliers, to the Company's core banking system.

(b) TransAction Solutions Limited (TAS)
This company, an Integrated Data Processing Centre, provided and maintained the computer mainframe hardware utilised by the Company to host the Company's Core Banking System and Internet Banking application, as well as providing hosted desktop management systems.

(c) Temenos Australia Pty Ltd
Temenos provides the Company's T24 software as a service (SaaS) based Core Banking System which is used to record and maintain customer balances as well as providing Internet Banking and Mobile Banking applications.

7.8 Commitments and contingencies

In thousands of AUD	**2020 $**	**2019 $**
(a) Capital expenditure	-	-
(b) Outstanding loan commitments		
Loans approved not advanced	701	6,187
Loan funds available for redraw	14,765	9,052
Unutilised overdraft limits	498	538
Total lending commitments	15,964	15,777
(c) Lease commitments		
Due not later than one month	92	120
Due later than one month and not later than three months	187	243
Due later than three months and not later than one year	860	1,050
Due more than one year but less than five years	2,765	4,224
Due more than five years	-	-
	3,904	5,637

The Group has obligations under the terms of these leases of its office premises for terms of up to 6 years, with options to extend the leases. Lease payments are payable in advance by equal monthly instalments due on the 1st day of each month.

Accounting policy - recognition and measurement
Transactions are classified as contingent liabilities where the Group's obligations depend on uncertain future events and principally consist of obligations to third parties. Items are classified as commitments where the Company has irrevocably committed itself to future transactions. These transactions will either result in the recognition of an asset or liability in future periods.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

7. OTHER NOTES

7.9 Events subsequent to balance date

On 14 July 2020 the Company received partial indemnification from the insurer in respect of $1,197,750 of the ATM fraud claim.

On 7 August 2020, the Company announced the appointment of Mr. Brett Morgan as Chief Executive Officer of the Banking and Wholesale divisions with Mr. John Kolenda to assume the position of Chief Executive Officer of the Aggregation divisions.

On 28 August 2020, the Company issued 450,000, performance rights to certain executives and employees.

No other matters or circumstances of a material nature have arisen since the end of the financial year which in the opinion of the Directors significantly affected or may significantly affect the operations of the Company, the results of the operations or the state of affairs of the Group in future financial years.

8. ACCOUNTING POLICIES AND NEW STANDARDS

8.1 Accounting policies not described elsewhere in this financial report

(i) Borrowings

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the loans and borrowings using the effective interest method.

(ii) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

8.2 New accounting standards adopted in current period

Australian Accounting Standards and Interpretations effective from the beginning of the current reporting period and their impact upon this financial report are as follows:

8.2.1 AASB 16 Leases

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	**Consol**	**Bank**
	$	**$**
Balance recognised at 1 July 2019 upon adoption of AASB 16	3,371	761
New leases entered into during the period	820	-
Depreciation charge for the period	(910)	(157)
Balance at 30 June 2020	3,281	604

8. ACCOUNTING POLICIES AND NEW STANDARDS

8.2.1 AASB 16 Leases (continued)

ii. Operating leases – comparative period

At 30 June 2019, the future minimum lease payments under non-cancellable operating leases were payable as follows.

IN THOUSANDS OF AUD	**30 June 2019**
	$
Due not later than one year	1,373
Due later than one year and not later than five years	4,358
Greater than five years	107
	5,838

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	5,211
Recognition exemption for leases with less than 12 months of term remaining at transition date	(194)
Lease liabilities recognised at 1 July 2019	5,017

iii. Sub-lease finance lease receivable

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

Leases under AASB 16

IN THOUSANDS OF AUD	**Consol**	**Bank**
	$	**$**
Balance recognised at 1 July 2019 upon adoption of AASB 16	1,410	-
Repayments	(289)	-
Balance at 30 June 2020	1,121	-

8. ACCOUNTING POLICIES AND NEW STANDARDS

8.2.1 AASB 16 Leases (continued)

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	**30 June 2020**
	$
Less than one year	368
Between one and two years	414
Between two and three years	398
Between three and four years	67
	1,247
Unearned finance income	(126)
Net investment in finance leases	1,121

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 30 June 2020 is set out below.

	Consol	**Bank**
IN THOUSANDS OF AUD	**$**	**$**
Balance recognised at 1 July 2019 upon adoption of AASB 16	5,017	779
New lease entered into during the period	820	-
Repayments	(1,191)	(108)
Balance at 30 June 2020	4,646	671

Lease liabilities are payable as follows.

	Consol ($)			**Bank ($)**		
IN THOUSANDS OF AUD	**Future minimum lease payments**	**Interest**	**Present value of lease payments**	**Future minimum lease payments**	**Interest**	**Present value of lease payments**
Less than one year	1,509	210	1,299	161	31	130
Between one and five years	3,582	235	3,347	594	53	541
	5,091	445	4,646	755	84	671

Accounting policy - recognition and measurement

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.

8. ACCOUNTING POLICIES AND NEW STANDARDS

8.2.1 AASB 16 Leases (continued)

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.

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.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of BNK Banking Corporation Limited, I declare that:

1. In the opinion of the Directors:

   a. The consolidated financial statements and notes of BNK Banking Corporation Limited for the financial year ended 30 June 2020 are in accordance with the Corporations Act 2001, including:
      i. Giving a true and fair view of its financial position as at 30 June 2020 and performance for the financial year ended on that date;
      ii. Complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

   b. The Directors draw attention to Note 1.2(b) to the consolidated financial statements which include a statement of compliance with International Financial Reporting Standards.

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

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2020.

On behalf of the Board

Jon Sutton
Director

28 August 2020

Independent Auditor's Report

To the shareholders of BNK Banking Corporation Limited

Report on the audits of the Financial Reports

Opinions

We have audited the consolidated ***Financial Report*** of BNK Banking Corporation Limited (the Group Financial Report). We have also audited the Financial Report of BNK Banking Corporation Limited (the Company Financial Report).

In our opinion, each of the accompanying Group Financial Report and Company Financial Report are in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** and of the ***Company's*** financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The respective ***Financial Reports*** of the Group and the Company comprise:

- Statements of financial position as at 30 June 2020
- Statements of profit or loss and other comprehensive income, statements of changes in equity, and statements of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of BNK Banking Corporation Limited (the ***Company***) and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinions

We conducted our audits in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audits of the Financial Reports* section of our report.

We are independent of the Group and Company in accordance with 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* (the Code) that are relevant to our audits of the Financial Reports in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The ***Key Audit Matters*** we identified for both the Group and Company are:

- Loans and Advances - Provision for credit losses

The additional ***Key Audit Matters*** we identified for the Group are:

- Carrying Value of Goodwill and other intangible assets
- Net Present Value of future trail commission receivable and payable

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our respective audits of the Financial Reports of the current period.

These matters were addressed in the context of our audits of each of the Financial Reports as a whole, and in forming our opinions thereon, and we do not provide a separate opinion on these matters.

Loans and Advances - Provision for credit losses $0.7m – Group and Company

Refer to Note 3.2 to the Group and Company Financial Report

The key audit matter	**How the matter was addressed in our audit**

Expected credit loss (ECL) provisions for loans and advances held at amortized cost is a key audit matter due to the significance of loans and advance balances, the degree of complexity and judgement applied by the Group and Company in determining the provisions, and the judgement required by us in challenging these estimates.
 	
The ECL model is reliant on numerous data inputs and assumptions including past historical data the Group and Company used to determine probabilities of default as well as incorporating forward-looking information.
 	
We used judgement to assess the ECL model's application of the requirements in AASB 9 *Financial Instruments*. This includes the assumptions made by the Group and Company in determining what represents a significant increase in credit risk, the method used to calculate the probability of default and loss given default based on the staging criteria required and judgement around the impact of COVID-19 on forward-looking information.
 	
We involved credit specialists to supplement our senior audit team members in assessing this key audit matter.
	Our procedures included:
	• Evaluated the Group and Company's processes and tested key controls such as:
	  - Reconciliation of historical loan portfolio data used in the model to determine probability of default to the underlying core banking system; and
	  - Management's review and approval of the ECL model and key assumptions used.
	• Assessed the methodology in the ECL model, including relevant adjustments for COVID-19, against the requirements in the accounting standards and our understanding of industry practice;
	• Tested the integrity of the ECL model, including the accuracy of the underlying calculations;
	• Tested a sample of key data elements used in determining the probability of default such as historical default rates to relevant source systems;
	• Challenged the assumptions for calculating the exposures at default used by the Group and Company to determine the loss given default in the ECL model by comparing these to our understanding of the Group's loans and advances portfolio, including those in COVID-19 deferral programs, and the industry and markets the Group and Company operate in;
	• Comparing the output of the ECL model to the expected credit loss provision recorded in the financial report; and
	• Assessment of the Group's disclosures using our understanding obtained from our testing and the requirements of the accounting standards.

Carrying Value of Goodwill and other intangible assets $49.6million – Group

Refer to Note 7.2 to the Group Financial Report

The key audit matter

A key audit matter was the Group's annual testing of goodwill and other intangible assets for impairment given the extent of judgement involved and the financial significance of the Goodwill and other identifiable intangible assets recognised. We focused on the key assumptions the Group applied in their value in use ("VIU") models for each CGU, including:

- Budgeted revenue growth rates;
- Terminal value growth rates; and
- Discount rates used specific to each of the three CGUs, Banking, Aggregation and Wholesale.

These assumptions and rates are complicated in nature and vary according to the conditions and environment the specific Cash Generating Unit (CGU) is subject to from time to time. The assumptions and rates are based on historical performance and forward looking budgeting taking into account the Group's strategy, market conditions, COVID-19 impacts, emerging regulatory changes and industry developments making them judgemental in nature.

The Group's modelling is sensitive to small changes in the discount rates and terminal value growth rates used.

We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.

How the matter was addressed in our audits

Our procedures included:

- Considered the Group's determination of their CGUs based on our understanding of the operations of the Group's business and how independent cash flows were generated, against the requirements of the accounting standards;
- Worked with our valuation specialists to:
  - assess the appropriateness of the Group's use of the value in use method to perform the annual test of goodwill for impairment against the requirements of the accounting standards;
  - assess the integrity of the VIU models used, including the accuracy of the underlying calculation formulas; and
  - independently develop a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in.
- Assessed the reasonableness of the budgeted revenue growth rates contained in the VIU models by comparing Board approved forecasts to Group budgets and actual results to inform our evaluation of the forecasts incorporated in the models;
- Challenged the significant budgeted revenue growth rate assumptions and terminal value growth rates in light of the Group's strategy taking into account market conditions including the impacts of COVID-19 and emerging regulatory changes. We compared budgeted revenue growth rates and terminal value growth rates to industry trends and expectations, and considered differences for the Group's operations. We used our knowledge of the Group, their past performance, business and customers, and our industry experience;
- Considered the sensitivity of the models by varying key assumptions, such as discount rates and growth rates, within a reasonably possible range. We did this to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures; and
- Assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

<table>
<tr><th colspan="2">Net Present Value of future trail commission receivable $387.2million and payable $343.0million – Group</th></tr>
<tr><td colspan="2">Refer to Note 4.4 to the Group Financial Report</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The Group earns and pays trail commissions over the life of the loans resulting in a trail commission receivable of $387 million and trail commission payable of $343 million.
This is a key audit matter due to the significant judgement we applied to assess the Group’s estimation of the value of trail commissions receivable and payable across trail commission portfolios. We focused on the key assumptions the Group applied in their net present value (NPV) model, including:
• Discount rates per annum;
• Percentage of commissions paid to brokers across different portfolios; and
• Weighted average life of aggregation, wholesale, and total portfolio loans.
We involved our valuation specialists in assessing this key audit matter.</td><td>Our procedures included:
• Evaluated the Group’s processes and tested key controls such as the review and approval of assumptions used in the Group’s NPV model for estimating the value of the trail commissions receivable and payable;
• Assessed the extraction of loan data used in the Group’s NPV model for completeness and accuracy by testing a sample of commission contract rates back to broker agreements;
• Worked with our valuation specialists to:
- assess the appropriateness of the methodology adopted in the Group’s NPV model across the trail commission portfolios against accepted industry practice and the requirements of the accounting standards;
- evaluate the key assumptions such as discount rates, weighted average life and percentages of commissions paid against publicly available market data for comparable entities; and
- assess the integrity of the Group’s NPV model including the accuracy of the underlying calculation formulas.
• Evaluated the sensitivity of the NPV model calculations by considering reasonably possible changes to the discount rate and weighted average life rates. We did this to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures; and
• Assessment of the adequacy of disclosures against the requirements of the accounting standards.</td></tr>
</table>

KPMG

Other Information

Other Information is financial and non-financial information in BNK Banking Corporation Limited's annual reporting which is provided in addition to the Financial Reports and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinions on the Financial Reports do not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audits of the Financial Reports, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Reports or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

- preparing the Financial Reports that give a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal controls to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audits of the Financial Reports

Our objective is:

- to obtain reasonable assurance about whether each of the Financial Reports as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinions.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audits of the Financial Reports is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of BNK Banking Corporation Limited for the year ended 30 June 2020, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 11 to 21 of the Directors' report for the year ended 30 June 2020.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Nicholas Buchanan
Partner
Sydney
28 August 2020

ADDITIONAL ASX INFORMATION

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 28 August 2020.

(a) Distribution of equity securities

Spread of holdings		Number of holders	Number of units	Percentage of total issued capital
1 -	1,000	84	48,314	0.051
1,001 -	5,000	1,550	3,753,031	3.949
5,001 -	10,000	80	668,795	0.704
10,001 -	100,000	244	9,465,271	9.960
100,001+		89	81,101,655	85.337
TOTAL		**1,846**	**82,415,399**	**100 %**

(b) Twenty largest holders of quoted equity securities

Rank	Shareholder	Number of units	Percentage of issued capital
1	JOHN KOLENDA	13,302,952	14.00
2	SF LEGACY INVESTMENTS LIMITED	9,200,000	9.68
3	CALVIN NG	7,674,747	8.07
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,219,881	5.49
5	RESIMAC LIMITED	4,468,902	4.70
6	AOYIN GROUP LIMITED	2,629,996	2.77
7	CARPE DIEM ASSET MANAGEMENT PTY LTD	2,430,190	2.56
8	RTL GROUP INVESTMENTS PTY LTD <THE RTL INVESTMENT A/C>	2,000,000	2.104
9	NOAH JAMES INVESTMENTS PTY LTD <THE ROCCO VENZIANO FAMILY A/C>	1,989,252	2.09
10	KOLEET PTY LTD <KOLENDA FAMILYA/C>	1,841,144	1.94
11	INVIA CUSTODIAN PTY LTD <B&D SUPERFRUND A/C A/C>	1,784,021	1.88
12	FIRSTMAC LIMITED	1,769,416	1.86
13	CITICORP NOMINEES PTY LTD	1,698,420	1.79
14	MR WAYNE HOSKING + MISS BERNADETTE WILLIAMS <THE HOSKING SUPER FUND A/C>	1,440,000	1.52
15	SAVOT 1 PTY LTD <THE SAVINS FAMILY A/C>	1,394,605	1.47
16	SIMON BEDNAR & JENNIFER BEDNAR	1,153,333	1.21
17	VANVAL INVESTMENTS PTY LTD	1,153,333	1.21
18	SIMON LYONS & JENNIFER LYONS	1,089,667	1.15
19	PYRAMID CAPITAL	775,000	0.82
20	K M K SUPER HOLDINGS PTY LTD <KMK SUPERANNUATION FUND A/C>	745,000	0.78
	TOTAL	63,759,869	67.09