BNK Banking Corporation Limited Financial Report

ACN:087 651 849

30 June 2019

Contents

CORPORATE INFORMATION

ACN: 087 651 849

Directors

Mr. Peter Wallace	(Chairman and Non-executive Director)
Mr. Derek LaFerla	(Non-executive Director)
Mr. Peter Hall	(Non-executive Director)
Mr. Don Koch	(Non-executive Director)
Mr. Simon Lyons	(Managing Director)
Mr. John Kolenda	(Executive Director)

Company Secretary
Mr. Malcolm Cowell

The registered office and principal place of business of the Company is:
Level 14, 191 St George's Terrace
Perth WA 6430
Phone: +(618) 9438 8888

Other Locations:
Sydney Office
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) 9262 3723

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

Auditors:
KPMG
300 Barangaroo Avenue
Sydney NSW 2000

Website Address:
www.bnk.com.au

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 2019 and the auditor's report thereon.

DIRECTORS

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

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.

Mr Peter Wallace	Chairman and Non-executive Director
Mr Derek LaFerla	Non-executive Director (resigned 30 August 2019)
Mr Peter Hall	Non-executive Director
Mr Don Koch	Non-executive Director (appointed 11 June 2019)
Mr Simon Lyons	Managing Director
Mr John Kolenda	Executive Director

Peter Wallace (Chairman and Non-executive Director)

Mr Wallace was appointed a Director in August 2014. He has more than 45 years of experience from a range of appointments held within the banking and financial services industry. Mr. Wallace was previously the Head of Corporate (Western Australia) for Bell Potter Securities Ltd where he directed capital raisings for several large publicly listed companies as well as provided a variety of corporate advisory services to both private and publicly owned companies. Over the past 30 years he also held executive management positions with Westpac Banking Corporation, Challenge Bank Ltd and National Australia Bank Ltd. Previous public company experience includes directorships with Tethyan Copper Ltd, Rural Aus Investments Ltd and Decmil Engineering Ltd.

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

- Katana Capital Limited – appointed 19 September 2005
- Neptune Marine Services Limited – appointed 8 July 2011

Mr Wallace is a Senior Fellow of the Financial Services Institute of Australia, a Fellow of the Australian Institute of Company Directors and an Associate Fellow of the Australian Institute of Management. He is Chair of the Remuneration Committee and a member of the Audit Committee, Credit Committee and Risk & Compliance Committee.

Derek LaFerla (Non-executive Director)

Mr LaFerla was elected as a Director in November 2015. He has over 30 years' experience as a corporate lawyer and Company Director. He is a Non-executive Director of Sandfire Resources NL, Veris Limited and Threat Protect Limited and is a member of the National Board of the AICD Council. He has held senior positions with some of Australia's leading law firms and is a Partner with large independent Western Australian law firm, Lavan.

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

- Veris Limited – appointed 28 October 2011
- Sandfire Resources NL – appointed 17 May 2010
- Threat Protect Australia Limited – appointed 3 September 2015

Mr LaFerla is Chair of the Audit Committee and a member of the Risk & Compliance Committee and Remuneration Committee. Mr La Ferla has resigned with effect from 30 August 2019.

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.

DIRECTORS' REPORT (continued)

Mr Hall holds a Graduate Diploma of Management, has completed Executive Management Programs at GE's global management college, a 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.

Don Koch (Non-executive 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 has been a Governor on the Cerebral Palsy Association Research Foundation since 2010 and was recently appointed as an Advisor on the UTS Business School Industry Advisory Board.

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.

Simon Lyons (Managing Director)
Mr Lyons was appointed Chief Executive Officer on 18 January 2016 and Executive Director on 23 October 2017. Mr Lyons has been involved in the day to day management of financial services businesses for the last 24 years. Prior to that he served as an Army Officer with the Australian Defence Force. He commenced his business career at Porter Western Limited as a stockbroker in 1994 and was a Director and shareholder of Porter Western when the business was sold to Macquarie Bank in 1999. With the business under new ownership, Mr Lyons became the State Manager for Macquarie Bank in Western Australia before transferring to a national role as Head of Broking (Distribution and Development) in Sydney. In 2005, Mr Lyons became the Head of Macquarie Private Wealth – Asia and spent several years working, establishing or acquiring wealth management businesses for Macquarie Bank throughout Asia. Since leaving Macquarie Banking in 2008, Mr Lyons established and managed wealth management businesses to service clients looking for stockbroking or fixed income investments, and immediately prior to joining the Company, was the Director WA for the Fixed Income Investment Group (FIIG).

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
- IBuyNew Group Limited – appointed 1 February 2013 and resigned 22 March 2017

Mr Kolenda is a member of the Credit Committee.

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.

DIRECTORS' REPORT (continued)

PRINCIPAL ACTIVITIES
The principal activities of the Group are the provision of a range of retail banking products and services to existing and new customers. BNK 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 2019**	**30 June 2018**	**Movement %**
Net interest revenue	3,451	3,465	(0.4%)
Net-commission income/(expense)	17,398	(258)	Large
Non-interest revenue	9,392	1,893	Large
Net statutory profit/(loss) after tax	3,614	(407)	Large
Underlying profit after tax*	4,216	532	N/A
Total on balance sheet assets	646,142	221,118	Large
On balance sheet loans	214,323	170,511	25.7%
Loans managed off balance sheet	37,528	43,004	(12.7%)
Wholesale managed loan book	2,378,420	-	Large
Aggregation commission loan book	38,091,056	-	Large
Total loan book	40,683,799	213,514	Large
Deposits	287,126	195,223	47.0%
Other key banking metrics			
Ave. Net Interest Margin	1.95%	1.86%	0.09%
Capital adequacy ratio	20.35%	21.97%	(1.63%)

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

The Group has recorded a statutory profit after income tax for the year ended 30 June 2019 of $3,614,000, an improvement on the prior year loss of $407,000. Underlying profit after tax of $4,216,000, after accounting for the effects of transaction costs of $860,000 incurred in relation to the merger with Finsure, was a $3,684,000 improvement on the prior year underlying profit of $532,000 reflecting the benefit of the merged group for the approximate 9 months since the merger was completed.

Growth strategy gains momentum
FY19 saw significant progress made on the Group's growth strategy, through continued investment in people, product and processes. The banking unit saw strong double-digit growth in year-on-year settlements of +61% to deliver on-balance sheet loan portfolio growth of +26%, whereas the Group's off-balance sheet volumes grew by +6% to deliver loan book growth of 19%. This growth culminated in the Group surpassing a total loan book of $40b in June 2019, and was enabled through continued investment made in the Bank's Temenos T24 core banking system (CBS) as well as growth in the recruitment of loan writers and development of the aggregation business' SaaS platform Infynity.

The strong portfolio performance witnessed in FY19 resulted in continued market share gains, and has positioned the Group well to continue growing in FY20 and in generating organic capital.

The Group sees continued investment in people, product and process as key in delivering sustained portfolio and profit growth. Hires such as a new Group Chief Financial Officer (CFO), and subsequently a Group Chief Operating Officer (COO), have further brought key subject matter expertise and structure to its operating model, with the establishment of a shared services model starting to deliver Group-wide operational synergies.

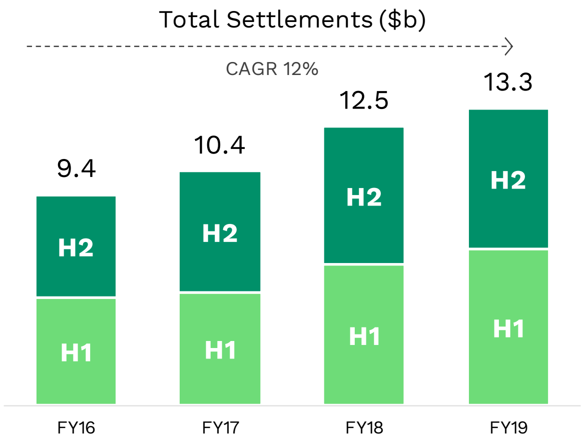
The priority for FY20 and beyond is to consolidate the Group's operating model and further drive synergies, whilst focusing on balance sheet loan growth. Through continued investment in technology, and the onset of open banking, the Group looks forward to increasing its product offering and servicing a wider customer-base.

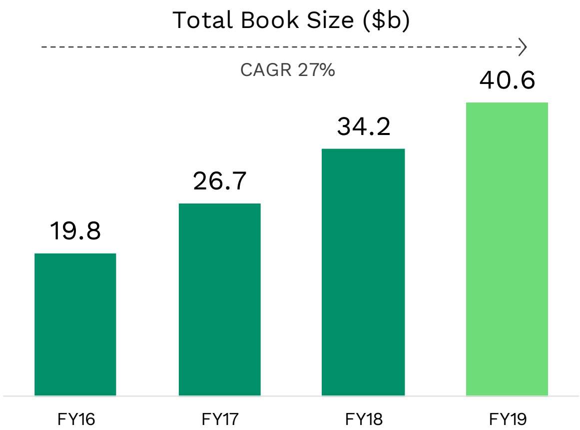
Record settlements and loan-book growth
A record settlement volume of $75m in new loans onto the banking balance sheet, achieved during FY19, represents a year-on-year growth of +61%. This performance was in line with stated growth strategy expectations, and complements overall growth in settlements of 6.6% achieved across all business units, demonstrating the resilience of the combined business model in a tough operating environment.

DIRECTORS' REPORT (continued)

The Group is happy to report that no balances were transferred off balance sheet, for capital management purposes, supporting further profitable growth. However, as a source of funding diversification and accelerated growth the Group is looking to grow off-balance sheet funding vehicles during FY20.

Total Bank lending assets grew from $170m in FY18 to $214m in FY19 (+26%), whereas the total loan-book grew to an overall balance of $40.6b, or +19% growth. Additionally, the number of loan writers grew by +17% to 1,674 importantly driving further diversification of revenue streams for the Group.





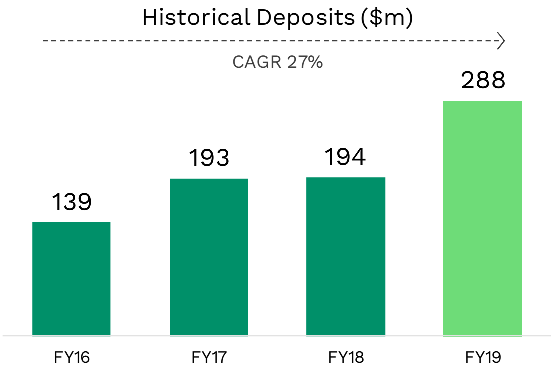
Net income for the period grew +492% reflecting healthy portfolio growth, whilst net interest income was flat as a result of eliminating the Finsure loan (refer to note 7.4.6). NIM was maintained at 1.95% (within our expected range), whilst ATM bailment fees fell somewhat during FY19 due to a contraction in the market for ATM services.

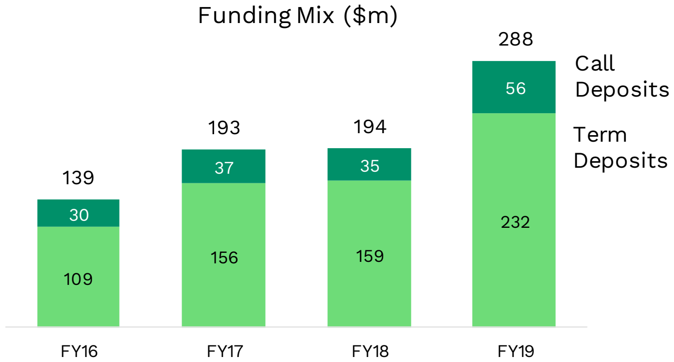
The Bank's credit quality has been maintained at a strong level with a loan-loss ratio (bad debt provisions as a portion of lending asset-base) of 12bps, a reduction of (2)bps from 1H19. This is due to strong credit assessment capability and arrears management processes. The Group has continued its objective of reducing portfolio concentration from Western Australia (WA), as well as diversifying origination channels.

Portfolio arrears as at Jun19 were $2.14m, with the >90 day balance comprising $1.2m of the overall amount, resulting in a total bad-debt provision for the Group of $0.3m, utilising the expected credit loss (ECL) methodology. All lending originated within the financial year was within prescribed lending risk limits, all of which are constantly monitored and reviewed by the executive leadership team (ELT) and Board. The Group also maintained its general reserve for credit losses of $0.45m, as additional buffer against potential future impairments.

Funding effectively for growth
Deposits comprise at-call accounts and term deposits which are sourced directly from retail customers and through various deposit brokers. Portfolio growth for the year was supported by growing the bank's deposit base, whilst maintaining a minimum of 20% transactional account balances. No loan balances were transferred to the receivables acquisition and servicing agreement (RASA) as capital and funding levels comfortably supported lending growth. During the financial year the RBA lowered the cash rate by (25)bps to 1.25%, some of which was also passed through to the Group's liability products, as directed and managed by the Group's Asset and Liability Committee (ALCO).

DIRECTORS' REPORT (continued)





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. ATM bailment facilities still comprise $8.0m of liquid asset investments, and whilst reducing still provide a source of diversified revenues for the Group. The remainder of liquidity management falls under the remit of ALCO, which ensures the Groups operates within its policy settings.

Investment in the T24 platform, including an upgrade to the most recent version (R18), as well as upgrades to the aggregation business software platform LoanKit (re-launched as Infynity) ensure that the Group is best positioned to deliver on its growth aspirations. Investments into the bank's digital strategy (mainly T24) and Infynity were $1.2m (WIP balance $1.5m) and $1.3m (WIP balance $2.0m), respectively, and were capitalised according to the Group's software capitalisation policy. Expenditure included in the development of these assets include costs of the systems themselves, as well as contractor and employee costs.

Capital

The Group's policy is to maintain a minimum capital adequacy ratio (CAR) as per APRA required levels. The CAR at 30 June 2019 is 20.35% and 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.

Whilst organic capital generation is central to the Group's strategy, it also continuously reviews its capital treatment methods, as well as balance sheet settings, to ensure compliance with APRA requirements. During FY19 the Group sought clarification regarding treatment of certain intangible assets, and following consultation received confirmation that it should re-state its CAR position from September 2018 onwards. The effect of the re-statement was a revised 23.2% CAR (as at 31 March 2019), up +5.6% as compared to the previous reported amount of 17.6%.

Other non-interest revenue and operating expenses

Other non-interest revenue (not described elsewhere within this report) includes lending and transaction fees, bailment facility income and aggregation service fees. This increased by $7.5m over the comparative year reflecting the further diversification of revenue streams that the merger with Finsure has created.

Operating expenses (excluding transaction costs associated with the Finsure transaction) increased to $23.6m reflecting the increased size and scale of the merged group.

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 2019.

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:

DIRECTORS' REPORT (continued)

	Number of ordinary shares	Number of options or performance rights over ordinary shares
Peter Wallace	105,838	-
Derek LaFerla	-	-
Peter Hall	59,034	-
Simon Lyons	948,000	766,667
John Kolenda	13,619,649	-
Don Koch	-	-

Interests in ordinary shares noted above were acquired by the Directors at their own expense and do not form part of their remuneration. Mr Lyons has received performance rights as part of his remuneration of the Company. Refer to the Remuneration Report for further details.

SHARE OPTIONS AND RIGHTS OVER SHARES

The Company previously had on issue 4,500,000 unlisted options. The options had an exercise price of $1.50 and expired unexercised in May 2019. In addition, the Company has 2,166,665 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
P Wallace	10	10	3	3	4	4	1	1	1	1
D LaFerla	9	10	3	3	4	4	1	1	1	1
P Hall	9	10	3	3	4	4	1	1	1	1
S Lyons*	10	10	3	-	4	-	1	-	1	-
J Kolenda	10	10	-	-	-	-	1	-	-	-
D Koch	1	1	1	1	1	1	-	-	-	-

* Attendance by invitation.

CHANGES IN THE STATE OF AFFAIRS

On 7 September 2018, shareholders voted to approve the merger with Finsure Holding Pty Ltd (Finsure).

On 17 September 2018, the merger with Finsure was completed through the issuance of 40,750,000 fully paid ordinary shares to Finsure's shareholders.

On 28 February 2019, shareholders voted to approve the change of company name from Goldfields Money Limited to BNK Banking Corporation Limited.

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.

DIRECTORS' REPORT (continued)

EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR
On 26 August 2019, the Company announced the appointment of Mr Jon Denovan as non-executive director with effect from 1 September 2019, and the retirement of Mr Derek LaFerla on 30 August 2019.

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
No 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:

Non audit services	$
Agreed upon procedures	6,500
Audit and assurance services	
Audit and review of financial statements	290,900
Regulatory assurance services	65,000
Total audit and assurance services	355,900
Total amounts paid to KPMG	**362,400**

AUDITORS INDEPENDENCE DECLARATION
The lead auditor's independence declaration provided in accordance with S307C of the Corporations Act 2001 is set out on page 21 and forms part of the directors' report for the financial year ended 30 June 2019.

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 2019 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 strategy
   B. Approach to setting remuneration
   C. Detail of incentive plans
4. Executive remuneration outcomes for 2019 (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

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 2019:

(i) Non-executive directors	
Peter Wallace	Chairman (non-executive) - Appointed 8 August 2014
Derek LaFerla	Director (non-executive) - Appointed 13 November 2015
Peter Hall	Director (non-executive) - Appointed 13 November 2015
Don Koch	Director (non-executive) - Appointed 11 June 2019
(ii) Other executives	
Simon Lyons	Managing Director - Appointed 18 January 2016
John Kolenda	Executive Director - Appointed 13 March 2018
Jussi Nunes	Group Chief Financial Officer – Appointed 10 December 2018
Malcolm Cowell	Company Secretary and former Chief Financial Officer – Appointed 1 March 2017
Steve Ellis	Chief Risk Officer – Appointed 17 July 2016

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 NEDs with all being independent. The Remuneration Committee meets periodically (at least annually) and is required to make recommendations to the board on matters related to the remuneration arrangements for NEDs and executives. The 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 Managing Director and other executives 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.

DIRECTORS' REPORT (continued)

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 Group did not seek external advice in relation to remuneration.

Remuneration Report approval at 2018 Annual General Meeting (AGM)
The 2018 Remuneration Report received positive shareholder support at the 2018 AGM with a vote of 91%.

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 behaviors that support an improvement in the financial performance of the business over time. To this end, the Group applies the following principles to its remuneration framework:

- 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.

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.	Company and individual performance are considered during the annual remuneration review.
Short term performance based incentive	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.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

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 market data, insights into remuneration trends, the performance of the Group and individual, and the broader economic environment.

3.3 Detail of incentive plans

Short-term incentive (STI)
The Managing Director and other executives are eligible for an annual performance based incentive of up to 60% of their base salary (excluding superannuation). 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.

For FY19, the merger with Finsure presented a significant period of transition for the Group, with substantial change in executive responsibilities. The Board will determine the amount, if any, of the short-term incentive to be paid to each executive, in consultation with the Managing Director as appropriate.

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 BNK (previously Goldfields Money) Equity Incentive Plan ("the Plan") at the 2016 Annual General Meeting held on 18 November 2016. 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.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

4.1 Executive remuneration outcomes for 2019 (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:

	2019	2018	2017	2016	2015
Profit/(loss)	3,614,000	(406,000)	(996,000)	(95,000)	140,000
Dividends paid	Nil	Nil	Nil	Nil	Nil
Share price at balance date	$0.64	$1.28	$1.00	$0.91	$0.85
Return on capital employed	3.60%	(1.65%)	(4.93%)	(0.56%)	0.94%

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.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

4.2 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**											
Simon Lyons	**2019**	**429,745**	**-**	**100,000**	**41,000**	**570,745**	**19,615**	**20,003**	**433,749**	**-**	**1,044,112**	**51%**
	2018	319,282	25,452	40,000	3,078	387,812	28,500	8,534	138,385	-	563,231	36%
John Kolenda[1]	**2019**	**518,833**	**-**	**-**	**11,792**	**530,625**	**-**	**-**	**-**	**-**	**530,625**	**0%**
Jussi Nunes[2]	**2019**	**194,209**	**-**	**-**	**-**	**194,209**	**17,484**	**667**	**-**	**-**	**212,360**	**0%**
Steve Ellis	**2019**	**218,574**	**-**	**50,000**	**-**	**268,574**	**24,190**	**1,126**	**131,194**	**-**	**425,084**	**43%**
	2018	185,840	-	30,000	-	215,840	16,625	634	36,509	-	269,608	25%
Former Executives												
Malcolm Cowell[3]	**2019**	**92,360**	**-**	**15,000**	**1,424**	**108,784**	**8,433**	**303**	**24,159**	**-**	**141,679**	**28%**
	2018	213,625	-	-	3,758	217,383	19,000	977	54,473	-	291,833	19%
Total	**2019**	**1,453,722**	**-**	**165,000**	**54,216**	**1,672,938**	**69,722**	**22,099**	**589,101**	**-**	**2,353,860**	**32%**
	2018	718,747	25,452	70,000	6,836	821,035	64,125	10,145	229,367	-	1,124,672	29%

[1]Executive Director from 17 September 2018
[2]Appointed as Group Chief Financial Officer on 10 December 2018
[3]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 comprise car parking and housing allowance
(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)

4.3 Analysis of bonuses included in remuneration – audited

Details of the discretionary 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	$100,000	100	0
Steve Ellis	$50,000	100	0
Malcolm Cowell	$15,000	100	0

4.4 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.

4.4.1 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 FY19	Vesting condition	Grant date	Fair value at grant date ($)	Expiry date
Steve Ellis	50,000	Service	1 November 2018	$0.90	30 November 2021

4.4.2 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	666,667	9 February 2017	100%	0%	(A)
	100,000	30 October 2017	100%	0%	(A)
Malcolm Cowell	500,000	9 February 2017	50%	0%	(B)
Steve Ellis	200,000	9 February 2017	100%	0%	(A)
	50,000	30 October 2017	100%	0%	(A)
	50,000	1 November 2018	0%	0%	2022

(A) Performance rights previously subject to performance conditions and change of control provisions. Amounts vested during the year based on the Board exercising its ultimate discretion following the merger with Finsure.
(B) Ceased to be a KMP on 10 December 2018. Vesting of remaining 50% of performance rights subject to Board approval.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

4.4.3 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)
Simon Lyons	-	485,333
Steve Ellis	45,000	-

(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. During the year ended 30 June 2019, Simon Lyons exercised 373,333 performance rights.

4.4.4 Summary of rights holdings

Participant	Held at 1 July 2018	Granted as remuneration	Exercised	Lapsed	Forfeited	Held at 30 June 2019	Vested during the year	Vested and exercisable at 30 June 2019
Simon Lyons	1,140,000	-	(373,333)	-	-	766,667	766,667	766,667
Malcolm Cowell	500,000	-	-	-	-	*	250,000	250,000
Steve Ellis	250,000	50,000	-	-	-	300,000	250,000	250,000

* Ceased to be a KMP on 10 December 2018

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
Simon Lyons	$425,000 plus superannuation up to the Maximum Superannuation Contribution Base	None	Continuing with 12 months' notice by the Company or six months by employee
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

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

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 2019:

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.

The remuneration of NEDs for the years ended 30 June 2019 and 30 June 2018 is detailed in table below.

		Short-term benefits			Post-employment	Long-term benefits	
		Salary & fees $	Non-monetary benefits	Other[5]	Superannuation	Long service leave	Total
Non-executive directors							
Peter Wallace	**2019**	**115,277**	**-**	**40,000**	**14,751**	**-**	**170,028**
	2018	80,000	-	-	7,600	-	87,600
Derek LaFerla	**2019**	**68,527**	**-**	**20,000**	**8,410**	**-**	**96,937**
	2018	67,058	-	-	6,371	-	73,429
Peter Hall	**2019**	**64,111**	**-**	**10,000**	**7,041**	**-**	**81,152**
	2018	53,850	-	-	5,116	-	58,966
John Kolenda[1]	**2019**	**14,722**	**-**	**-**	**1,399**	**-**	**16,121**
	2018	15,239	-	-	1,448	-	16,687
Don Koch[2]	**2019**	**5,833**	**-**	**-**	**554**	**-**	**6,387**
Former directors							
James Austin[3]	2018	16,666	-	-	1,583	-	18,249
Keith John[4]	2018	34,977	-	-	3,323	-	38,300
Total	**2019**	**268,470**	**-**	**70,000**	**32,155**	**-**	**370,625**
	2018	267,790	-	-	25,440	-	293,230

[1] Non-executive director until 17 September 2018
[2] Appointed 11 June 2019
[3] Ceased 23 October 2017
[4] Resigned 12 March 2018
[5] Additional once-off payments for additional board services in relation to the Finsure merger.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

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

2019	Balance at the start of the year	Acquired	Other movement	Balance at the end of the year
Directors				
Peter Wallace	70,838	35,000	-	105,838
Derek LaFerla	-	-	-	-
Peter Hall	13,534	45,500	-	59,034
Simon Lyons	258,000	316,667	373,333	948,000
John Kolenda	2,750,480	-	11,176,998	13,927,478
Don Koch	-	-	-	-
Executives				
Jussi Nunes	-	-	-	-
Steve Ellis	-	-	-	-

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/ceasing to be a KMP	Number of KMP in group
2019	2,899,133	48,200	-	2,812,141	2

The information above reflects the period that the loan was provided to Finsure Holding Pty Ltd, a previously direct-controlled entity of Mr Kolenda until the merger with BNK on 17 September 2018.

(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 incurred costs of $102,449 (2018: $364,550) to Lavan in relation to legal services provided to the Company. Mr. Derek LaFerla is a partner of Lavan.

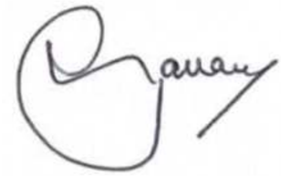
During the period, the Group sub-leased office space to Aura Group Pty Ltd, a related entity of Mr. John Kolenda. Rental income received during the period totaled $635,101 and the balance receivable at 30 June 2019 was $194,495.

At period end, the Group had a receivable with Top Level Real Estate Pty Ltd, a subsidiary of The Agency Limited, a related entity of Mr. John Kolenda totaling $47,194. Rental income recognised during the period was $6,194.

End of Remuneration Report

DIRECTORS' REPORT (continued)

Signed in accordance with a Resolution of Directors



Peter Wallace - Chairman

Dated this 30th day of August 2019

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 2019 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.

KPMG

KPMG

Nicholas Buchanan
Partner

Sydney
30 August 2019

INCOME STATEMENTS

For the year ended 30 June 2019

		Consolidated		Bank	
In thousands of AUD	**Note**	**2019**	**2018**	**2019**	**2018**
		$	**$**	**$**	**$**
Interest revenue from banking activities	2.2	8,793	8,251	8,912	8,251
Interest expense on banking activities	2.2	(5,342)	(4,786)	(5,181)	(4,786)
Net interest income	2.2	3,451	3,465	3,731	3,465
Commission income	2.2	187,042	-	-	-
Commission expense	2.2	(169,644)	(258)	(253)	(258)
Net commission income/(expense)		17,398	(258)	(253)	(258)
Other income	2.2	9,392	1,893	1,623	1,893
Total net revenue		**30,241**	**5,100**	**5,101**	**5,100**
Impairment reversal/(expense) on loans and advances		(20)	(5)	(20)	(5)
Operating expenses	2.3	(23,652)	(4,574)	(6,635)	(4,574)
Transaction expenses		(860)	(938)	(860)	(938)
Profit/(Loss) before income tax from continuing operations		**5,709**	**(417)**	**(2,414)**	**(417)**
Income tax (expense)/benefit	2.4.1	(2,095)	11	571	11
Profit/(Loss) for the period attributable to equity holders of the parent		**3,614**	**(406)**	**(1,843)**	**(406)**

Basic earnings per share (cents)	5.3	5.14	(1.80)
Diluted earnings per share (cents)	5.3	5.05	(1.80)

The accompanying notes form part of these financial statements

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 30 June 2019

		Consolidated		Bank	
In thousands of AUD	**Note**	**2019**	**2018**	**2019**	**2018**
		$	**$**	**$**	**$**
Profit/(loss) for the year		3,614	(406)	(1,843)	(406)
Other comprehensive income, net of income tax					
Items that may be reclassified subsequently to profit or loss					
Net change in fair value of financial assets		(297)	-	(205)	-
Total comprehensive income for the year attributable to equity holders of the parent		**3,317**	**(406)**	**(2,048)**	**(406)**

The accompanying notes form part of these financial statements

STATEMENTS OF FINANCIAL POSITION
As at 30 June 2019

		Consolidated		Bank	
In thousands of AUD	**Note**	**2019**	**2018**	**2019**	**2018**
		$	**$**	**$**	**$**
ASSETS					
Cash and cash equivalents	4.1.1	19,381	14,529	17,431	14,529
Trade and other receivables	4.4.1	285,485	712	3,378	712
Due from other financial institutions	4.2	32,344	24,507	32,344	24,507
Loans and advances	3.1	214,323	170,511	216,891	170,511
Other financial assets	4.2	46,194	7,458	46,032	7,458
Investment in subsidiaries	6.1.1	-	-	61,925	-
Property, plant and equipment	7.1	1,197	786	735	786
Goodwill and other intangible assets	7.2	47,218	1,949	3,104	1,949
Deferred tax assets	2.4.2	-	666	1,766	666
TOTAL ASSETS		**646,142**	**221,118**	**383,606**	**221,118**
LIABILITIES					
Deposits	4.3	287,126	195,223	287,126	195,223
Trade and other payables	4.4.2	245,225	1,040	1,033	1,040
Current tax liability		-	7	-	7
Provisions	7.3	1,292	282	374	282
Deferred tax liabilities	2.4.2	12,063	-	-	-
TOTAL LIABILITIES		**545,706**	**196,552**	**288,533**	**196,552**
NET ASSETS		**100,436**	**24,566**	**95,073**	**24,566**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS					
Contributed equity					
Issued capital, net of raising costs	5.2.2	96,568	22,450	96,568	22,450
Other contributed equity	5.2.3	-	1,830	-	1,830
Reserves		1,074	1,002	1,168	1,002
Retained earnings		2,794	(716)	(2,663)	(716)
TOTAL EQUITY		**100,436**	**24,566**	**95,073**	**24,566**

The accompanying notes form part of these financial statements

STATEMENTS OF CHANGES IN EQUITY
For the year ended 30 June 2019
In thousands of AUD

Attributable to equity holders	Note	Issued Capital	Other Contributed Equity	Equity Raising Costs	Property, Plant and Equipment Revaluation Reserve	Financial Assets Revaluation Reserve	General Reserve for Credit Losses	Share-based Payments Reserve	Retained Earnings	Total Equity
		Consolidated								
		$	$	$	$	$	$	$	$	$
Balance at 1 July 2017		**19,349**	**1,830**	**(1,394)**	**97**	**205**	**342**	**87**	**(309)**	**20,207**
Loss for the period		-	-	-	-	-	-	-	(406)	(406)
Other comprehensive income		-	-	-	-		-	-	-	-
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(406)**	**(406)**
Transactions with owners of the Company										
Issue of share capital		4,731	-	-	-	-	-	-	-	4,731
Equity raising costs, net of tax		-	-	(236)	-	-	-	-	-	(236)
Cost of share-based payments		-	-	-	-	-	-	271	-	271
Balance at 30 June 2018		**24,080**	**1,830**	**(1,630)**	**97**	**205**	**342**	**358**	**(716)**	**24,566**
Balance at 1 July 2018		**24,080**	**1,830**	**(1,630)**	**97**	**205**	**342**	**358**	**(716)**	**24,566**
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	73,278	-	-	-	-	-	(301)	-	72,977
Equity raising costs, net of tax	5.2.4	-	-	(990)	-	-	-	-	-	(990)
Transfers		1,830	(1,830)	-	-	-	104	-	(104)	-
Cost of share-based payments		-	-	-	-	-	-	568	-	568
Balance at 30 June 2019		**99,188**	**-**	**(2,620)**	**97**	**(92)**	**446**	**625**	**2,794**	**100,436**

The accompanying notes form part of these financial statements

STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2019

In thousands of AUD

		Bank								
Attributable to equity holders	**Note**	**Issued Capital**	**Other Contributed Equity**	**Equity Raising Costs**	**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 2017		**19,349**	**1,830**	**(1,394)**	**97**	**205**	**342**	**87**	**(309)**	**20,207**
Profit for the period		-	-	-	-	-	-	-	(406)	(406)
Other comprehensive income		-	-	-	-		-	-	-	-
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(406)**	**(406)**
Transactions with owners of the Company										
Issue of share capital		4,731	-	-	-	-	-	-	-	4,731
Equity raising costs, net of tax		-	-	(236)	-	-	-	-	-	(236)
Cost of share-based payments		-	-	-	-	-	-	271	-	271
Balance at 30 June 2018		**24,080**	**1,830**	**(1,630)**	**97**	**205**	**342**	**358**	**(716)**	**24,566**
Balance at 1 July 2018		**24,080**	**1,830**	**(1,630)**	**97**	**205**	**342**	**358**	**(716)**	**24,566**
Profit for the period		-	-	-	-	-	-	-	(1,843)	(1,843)
Other comprehensive income		-	-	-	-	(205)	-	-	-	(205)
Total comprehensive income		**-**	**-**	**-**	**-**	**(205)**	**-**	**-**	**(1,843)**	**(2,047)**
Transactions with owners of the Company										
Issue of share capital		73,278	-	-	-	-	-	(301)	-	72,977
Equity raising costs, net of tax		-	-	(990)	-	-	-	-	-	(990)
Transfers		1,830	(1,830)	-	-	-	104	-	(104)	-
Cost of share-based payments		-	-	-	-	-	-	568	-	568
Balance at 30 June 2019		**99,188**	**-**	**(2,620)**	**97**	**-**	**446**	**625**	**(2,663)**	**95,074**

The accompanying notes form part of these financial statements

STATEMENTS OF CASH FLOWS
For the year ended 30 June 2019

		Consolidated		Bank	
	Note	2019	2018	2019	2018
In thousands of AUD		$	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		8,793	7,964	8,912	7,964
Fees and commissions received		128,434	1,718	365	1,718
Interest and other costs of finance paid		(5,342)	(3,489)	(5,182)	(3,489)
Other income		338	528	168	528
Payments to suppliers and employees		(134,024)	(4,623)	(7,636)	(4,623)
Net increase in loans, advances and other receivables		(43,699)	(12,850)	(47,619)	(12,850)
Net (decrease)/increase in deposits and other borrowings		91,903	(207)	91,903	(207)
Net (payments)/receipts for investments		(46,692)	6,436	(46,692)	6,436
Net cash provided by/(used in) operating activities		(289)	(4,523)	(5,781)	(4,523)
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash acquired in a business combination		294	-	-	-
Investment in subsidiary		-	-	(8,950)	-
Payments for property, plant and equipment		(212)	(95)	(56)	(95)
Payments for intangible assets		(2,962)	(1,520)	(1,335)	(1,520)
Net cash from/(used in) investing activities		(2,880)	(1,615)	(10,341)	(1,615)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from the issue of capital		20,302	4,730	20,302	4,730
Payments for equity raising costs		(1,278)	(286)	(1,278)	(286)
Repayment of borrowings		(11,003)	-	-	-
Net (used in)/cash from financing activities		8,021	4,444	19,024	4,444
Net increase/(decrease) in cash held		4,852	(1,694)	2,902	(1,694)
Cash and cash equivalents at beginning of the year		14,529	16,223	14,529	16,223
Cash and cash equivalents at end of the year		**19,381**	**14,529**	**17,431**	**14,529**

The accompanying notes form part of these financial statements

1. BASIS OF PREPARATION

1.1 Corporate information

BNK Banking Corporation Limited (the "Company" or "BNK") is a for-profit entity and provides a range of retail banking products and financial services to the public. The Company was previously known as Goldfields Money Limited

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. 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 2019 was authorised for issue in accordance with a resolution of the directors on 30 August 2019.

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 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments* have been applied. Refer to note 8.2 for further information regarding the impact upon transition to these standards. Where required, comparative information has been represented for consistency with the current year's presentation in the financial report.

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. Revisions to accounting estimates are recognised in the period on which the estimate is revised and in any future periods affected. The most significant use of judgements and estimates has been applied to the following areas. Refer to the respective notes for additional details:

	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
Acquisition accounting	6.1.1
Impairment of goodwill and other intangibles	7.2

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 Managing Director, in relation to the business activities of the Group. In the comparative year, the Company was a single segment (Banking). Following the acquisition of Finsure in September 2018, 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. Loans are distributed through the Company's existing branch network, via online applications, accredited brokers and through the Group's Wholesale mortgage management division. The segment earns net interest income and service fees from providing a range of services to its retail and small business customers.

Wholesale mortgage management
The Wholesale mortgage management segment offers prime and commercial loans under the Better Choice Home Loans brand, funded by a range of third party wholesale funding providers (white label products). During the year ended 30 June 2019, Goldfields Money was added as a funder to the Wholesale mortgage management business and competes with the existing range of funders. 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 in excess of 1,600 mortgage brokers, connecting them with a panel of approximately 60 lenders. The segment is branded as Finsure and derives revenue in the form of fees for service (software, compliance, professional development, etc). Fees include upfront commissions which are earned upon each loan settlement, and ongoing trail commissions. The Group collects the upfront and trail commission and processes the contractual portion through to its accredited brokers.

In thousands of AUD	**Banking $**	**Aggregation $**	**Wholesale $**	**Total $**
Revenue				
Interest income	8,912	136	5	9,053
Inter-segment interest income	(260)	-	-	(260)
Total interest income	8,652	136	5	8,793
Commission and other non-interest income	1,623	183,805	12,561	197,989
Inter-segment commission income	-	-	(1,555)	(1,555)
	1,623	183,805	11,006	196,434
Total segment revenue	10,275	183,941	12,982	205,227
Interest expense				
Deposits	5,181	-	-	5,181
Other	-	161	-	161
Total interest expense	5,181	161	-	5,342
Commission expense	253	163,763	7,183	171,199
Inter-segment commission expense	-	(1,555)	-	(1,555)
	253	162,208	7,183	169,644
Segment profit/(loss) before tax	(2,413)	10,189	(2,067)	5,709
Material non-cash expenses:				
Depreciation and amortisation	288	678	6	972
Share-based payments	402	79	52	534
Segment assets	321,133	292,722	32,287	646,142
Segment liabilities	286,484	245,499	13,723	545,706

2. FINANCIAL PERFORMANCE (CONTINUED)

2.2 Income

Net interest income

In thousands of AUD	Consolidated 2019 $	Consolidated 2018 $	Bank 2019 $	Bank 2018 $
Interest income				
Loans and advances	7,618	7,298	7,821	7,298
Due from other institutions	1,175	953	1,091	953
Total interest income	8,793	8,251	8,912	8,251
Interest expense				
Deposits	5,182	4,786	5,181	4,786
Other	160	-	-	-
Total interest expense	5,342	4,786	5,181	4,786
Net interest income	3,451	3,465	3,731	3,465

Net commission income

In thousands of AUD	Consolidated 2019 $	Consolidated 2018 $	Bank 2019 $	Bank 2018 $
Commission income				
Upfront commission	63,438	-	-	-
Trail commission income	55,075	-	-	-
Net present value of future trail commissions receivable	68,529	-	-	-
Total commission income	187,042	-	-	-
Commission expense				
Upfront commission expense	60,021	-	-	-
Trail commission expense	47,089	258	253	258
Net present value of future trail commission payable	62,534	-	-	-
Total commission expense	169,644	258	253	258
Net commission income/(expense)	17,398	(258)	(253)	(258)

Other income

In thousands of AUD	Consolidated 2019 $	Consolidated 2018 $	Bank 2019 $	Bank 2018 $
Service fees and other residual income	1,327	211	249	211
Software license fee income	1,504	-	-	-
Broker flat fee income	1,671	-	-	-
Compliance fee income	1,215	-	-	-
Lending fees	600	60	181	60
Transaction fees	26	163	26	163
Sponsorship	1,881	-	-	-
Cash convenience income	830	1,150	830	1,150
Dividends received	6	11	6	11
Other	332	298	331	298
Total other income	9,392	1,893	1,623	1,893

The Group has applied AASB 9 and AASB 15 with effect from 1 July 2018. Information about the effect of initially applying these standards is described in Note 8.2.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.2 Income (continued)

Accounting policy - recognition and measurement

Banking

Interest income and expense - policy effective from 1 July 2018

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 (or impairment allowance before 1 July 2018).

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 and partially in the scope of AASB 15. 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

Commissions 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.

Broker flat 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.

Technology and Compliance fee income

The Group earns Software as a Service income for subscription to its proprietary loan origination platform "LoanKit" 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.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.3 Operating Expenses

In thousands of AUD	Consolidated 2019 $	Consolidated 2018 $	Bank 2019 $	Bank 2018 $
Depreciation and amortisation	972	152	288	152
Information technology	1,308	696	826	696
Banking services delivery	355	278	355	278
Employee benefits	12,985	2,325	3,882	2,325
Professional services	1,588	325	615	325
Marketing	2,212	99	109	99
Occupancy	1,277	201	261	201
Other administration expenses	2,955	498	299	498
Total operating expenses	23,652	4,574	6,635	4,574

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 2019 $	Consolidated 2018 $	Bank 2019 $	Bank 2018 $
Recognised in profit or loss				
Current tax	-	7	-	7
Deferred tax	2,095	(18)	(571)	(18)
Income tax expense/(benefit) recognised in Profit or Loss	2,095	(11)	(571)	(11)
Recognised in equity				
Revaluation of available for sale financial assets	(116)	-	(77)	-
Equity raising costs	-	(50)	-	(50)
Income tax expense/(benefit) recognised in Other Comprehensive Income	(116)	(50)	(77)	(50)
Tax reconciliation				
Profit/(Loss) before tax	5,709	(417)	(2,414)	(417)
Prima facie income tax expense/(benefit) on profit before income tax at 30% (2018:27.5%)	1,712	(115)	(723)	(115)
Adjust for tax effect of:				
Non-deductible expenses	325	67	80	67
Change in corporate tax rate	(60)	-	(60)	-
Other	118	36	132	36
Income tax expense/(benefit) recognised in Profit or Loss	2,095	(11)	(571)	(11)

2. FINANCIAL PERFORMANCE (CONTINUED)

2.4 Income tax (continued)

2.4.2 Deferred tax assets and liabilities

	Consolidated		Bank	
In thousands of AUD	**2019 $**	**2018 $**	**2019 $**	**2018 $**
Deferred tax assets comprise temporary differences attributable to:				
Provision for doubtful debts	77	66	77	66
Accrued expenses	282	48	139	48
Provisions	404	78	112	78
Equity raising costs	612	164	355	164
Net present value of trail commission payable	69,125	-	-	-
Capitalised expenditure	75	180	666	180
Carry forward losses and R&D offsets	4,201	428	688	428
Total deferred tax assets	74,777	964	2,037	964
Deferred tax liabilities comprise temporary differences attributable to:				
Prepayments and other assets	32	57	1	57
Intangible assets	5,730	-	-	-
Financial assets at fair value through OCI	-	78	-	78
Net present value of trail commission receivable	80,808	-	-	-
Deferred commission expense	218	116	217	116
Property, plant and equipment	52	47	52	47
Total deferred tax liabilities	86,840	298	271	298
Set-off against total deferred tax assets	(74,777)	(298)	(271)	(298)
Net deferred tax asset/(liability)	(12,063)	666	1,766	666

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.

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.

NOTES TO THE FINANCIAL REPORT

3. LOANS AND OTHER ADVANCES

3.1 Loans and advances

In thousands of AUD	Consolidated 2019 $	Consolidated 2018 $	Bank 2019 $	Bank 2018 $
Residential loans	190,030	146,358	190,030	146,358
Term loans	22,377	21,373	24,748	21,373
Personal loans	1,313	2,291	1,313	2,291
Overdrafts	444	443	444	443
	214,164	170,465	216,535	170,465
Add: Unamortised broker commissions	418	285	615	285
Gross loans and advances	214,582	170,750	217,150	170,750
Provision for credit losses	(259)	(239)	(259)	(239)
Loans and advances net of provisions	214,323	170,511	216,891	170,511

Maturity analysis – gross loans and advances

	Consolidated 2019 $	Consolidated 2018 $	Bank 2019 $	Bank 2018 $
Overdrafts	445	443	445	443
Not longer than 1 year	1,548	2,181	4,116	2,181
Longer than 1 and not longer than 5 years	11,540	5,670	11,540	5,670
Longer than 5 years	201,049	162,456	201,049	162,456
	214,582	170,750	217,150	170,750

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 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.

3. LOANS AND ADVANCES

3.2 Provision for credit losses

In thousands of AUD	Consolidated 2019 $	2018 $	Bank 2019 $	2018 $
Collective provision	-	239	-	239
Expected credit loss provision	258	-	258	-
Total provisions for credit losses	258	239	258	239
Collective provision for impairment				
Opening balance	-	234	-	234
Bad debts provided for during the year	-	5	-	5
Bad debts written off during the year	-	-	-	-
Closing balance	-	239	-	239
Expected credit loss provision				
Opening balance upon adoption of AASB 9	239	-	239	-
Bad debts provided for during the year	19	-	19	-
Bad debts written off during the year	-	-	-	-
Closing balance	258	-	258	-

Accounting policy - Recognition and measurement

Financial assets – policy applicable from 1 July 2018

Expected credit loss provision

AASB 9 replaces the 'incurred loss' model in AASB 139 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, but not to investments in equity instruments. Under AASB 9, credit losses are recognised earlier than under AASB 139.

The 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).

When determining whether the 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. 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.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

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).

3. LOANS AND ADVANCES

3.2 Provision for credit losses (continued)

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.

Financial assets – policy applicable prior to 30 June 2018

Collective provision
Previously under *AASB 139 Financial Instruments: Recognition and Measurement*, a collective provision was made for groups of loans with similar credit risk characteristics. Loans that are individually assessed for impairment and for which an impairment loss is or continue to be recognised are not included in a collective assessment of impairment.

The amount of impairment loss is based upon estimated losses incurred within the portfolio, based upon objective evidence of impairment, the estimated probability of default and the expected loss given default having regard to the historical experience of the Company. The provision increase or decrease is recognised in profit or loss.

General reserve for credit losses
In addition to the above provisions, in line with prudential requirements the Board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for equity holders against the prospect that some loans and advances will experience loan repayment difficulties. The reserve is based on estimation of potential risk in the loan portfolio based upon the level of security taken as collateral as determined by APS 220.

Use of judgements and estimates
The Company determines whether loans are impaired on an ongoing basis. This requires an estimation of the value of the future cash flows and associated collateral. The Company writes off a loan when it has determined that the loan is uncollectable. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial condition such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to repay the entire exposure.

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.

NOTES TO THE FINANCIAL REPORT

3. LOANS AND ADVANCES

3.3 Derecognition of loans and advances (continued)

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 $60,000,000 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. Previous loan sales have occurred prior to a capital raising in order to ensure the Group complies with its capital adequacy requirements. No loan sales were required during the year ended 30 June 2019.

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

In thousands of AUD	**2019 $**	**2018 $**
Owner occupier loans	26,599	30,350
Investment loans	10,929	12,654
	37,528	43,004

Loan sales:

Year ended	**Date of sale**	**Number of loans**	**Proceeds $**
30 June 2019	Nil	-	-
30 June 2018	24 November 2017	26	10,211
	31 January 2018	37	10,039
	29 March 2018	3	635

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 2019 $	2018 $	Bank 2019 $	2018 $
Cash at bank and on hand	19,381	14,529	17,431	14,529
Total cash and cash equivalents	19,381	14,529	17,431	14,529

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 2019 $	2018 $	Bank 2019 $	2018 $
Operating profit/(loss) after income tax	3,614	(407)	(1,842)	(407)
Non-cash items				
Depreciation and amortisation	972	152	288	152
Change in fair value of NPV asset	(68,529)	-	-	-
Change in fair value of NPV liability	62,534	-	-	-
Impairment of receivables	19	5	19	5
Leave provisions	183	57	91	57
Share-based payments	292	236	266	236
Movement in assets and liabilities				
Loans and receivables	(43,699)	(12,872)	(46,069)	(12,872)
Investments	(46,692)	6,436	(46,692)	6,436
Deposits	91,903	1,089	91,903	1,089
Other assets	1,002	45	(2,665)	45
Deferred tax assets	667	18	(1,099)	18
Deferred tax liabilities	805	-	-	-
Current tax receivable/payable	(7)	7	(7)	7
Payables	(3,170)	654	119	654
Provisions	(183)	57	(91)	57
Net cash flow from operating activities	(289)	(4,523)	(5,781)	(4,523)

Material non-cash transactions

On 17 September 2018, the Company acquired 100% of the share capital of Finsure Holdings Pty Ltd and its controlled entities through the issuance of 40,750,000 ordinary shares in the Company. Refer to note 6.1.2 for further details.

4. LIQUIDITY AND FUNDING

4.2 Financial assets

In thousands of AUD	Consolidated 2019 $	2018 $	Bank 2019 $	2018 $
Due from other financial institutions at amortised cost	32,344	24,507	32,344	24,507
Investment securities at amortised cost (a)	45,890	7,034	45,890	7,034
Investment in Cuscal Limited at fair value through OCI (b)	142	424	142	424
Investments in listed companies at fair value	162	-	-	-
	78,538	31,965	78,376	31,965
Maturity analysis				
Due from other financial institutions				
- Not longer than 3 months	32,344	20,457	32,344	24,457
- 3 months to 1 year	-	4,050	-	4,050
	32,344	24,507	32,344	24,507
Investment securities				
- Not longer than 3 months	-	-	-	-
- 3 months to 1 year	13,766	2,527	13,766	2,527
- 1 year to 5 years	22,088	4,507	22,088	4,507
- More than 5 years	10,038	-	10,038	
	45,890	7,034	45,890	7,034

(a) Investment securities are investments in debt securities comprising floating rate notes issued by other banks, and bonds issued by Commonwealth and state-governments, and are initially recognised at fair value and subsequent 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 7.9. 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

Financial assets – policy applicable from 1 July 2018

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.

Financial assets – policy applicable prior to 1 July 2018

Prior to 1 July 2018, financial assets that are not classified as loans and receivables, were designated as either:

- Held to maturity;
- Available for sale; or
- At fair value through profit or loss.

Held to maturity investments
This category includes non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Company has a positive intention and ability to hold to maturity. They are measured at amortised cost.

Available for sale assets
This category includes investments in equity instruments. Available-for-sale financial assets are recognised on acquisition at cost on a trade date basis and thereafter at fair value. Changes in the fair value of available-for-sale assets are reported in the revaluation reserve net of applicable income taxes until the investments are sold, collected or otherwise disposed of, or until such investments are impaired. On disposal the accumulated change in fair value is transferred to the statement of comprehensive income.

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

	Consolidated		Bank	
In thousands of AUD	**2019**	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Call deposits	55,517	35,511	55,517	35,511
Term deposits	231,609	159,712	231,609	159,712
	287,126	195,223	287,126	195,223
Maturity analysis				
- At call	55,517	35,511	55,517	35,511
- Not longer than 3 months	105,249	105,916	105,249	105,916
- Longer than 3 months but less than 12 months	121,082	45,301	121,082	45,301
- Longer than 12 months but less than 5 years	5,278	8,495	5,278	8,495
	287,126	195,223	287,126	195,223

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. LIQUIDITY AND FUNDING

4.4 Receivables and payables

4.4.1 Commission and other receivables

In thousands of AUD	Consolidated 2019 $	2018 $	Bank 2019 $	2018 $
Net present value of future trail commission receivable	269,361	-	-	-
Accrued commission income	12,826	-	-	-
Prepayments	955	207	402	207
Other debtors	2,343	505	2,976	505
Total commission receivable	285,485	712	3,378	712

4.4.2 Commission and other payables

In thousands of AUD	Consolidated 2019 $	2018 $	Bank 2019 $	2018 $
Net present value of future trail commission payable	230,415	-	-	-
Accrued commission payable	11,652	-	-	-
Trade creditors and accrued expenses	3,158	1,040	1,033	1,040
Total commission payable	245,225	1,040	1,033	1,040

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:

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

Liabilities for trade creditors and other amounts are non-interest bearing and carried at 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.

NOTES TO THE FINANCIAL REPORT

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. Following the merger with Finsure in 2018, the Group engaged an independent third party firm to undertake a comprehensive review of the Risk Management Framework to assist the Company enhance and strengthen its risk management processes and controls. A detailed implementation plan was developed with actions identified to address the review recommendations, and monitored for completion. Management has continued to keep the Board and the Australian Prudential Regulation Authority (APRA) informed of the progress in completing the actions, and internal audit engaged to validate the appropriateness of the Group's responses and completion. 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.

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 directors of the Company. It assists the Board in the development of the risk strategy and implementation and managing and monitoring relevant risk decisions including policies and limits.

Managing Director & Executive Management

The Managing Director 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, conducted by an external service provider 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.

NOTES TO THE FINANCIAL REPORT

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.1.1 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

5.1.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.2 Interest rate risk in the banking book (continued)

			Consolidated			
	Weighted	Floating	Fixed interest rate		Non-interest	Amount per
2019	average effective	interest rate	1 year or less	1 year or more	bearing	Statement of Financial
Financial assets	interest rate					Position
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
2018						
Financial assets						
Cash and cash on hand	0.50	14,526	-	-	-	14,526
Due from other financial institutions	2.13	-	24,507	-	-	24,507
Investment securities	2.65	7,034	-	-	-	7,034
Loans and advances	4.84	145,858	4,894	19,758	-	170,511
Commission receivables	-	-	-	-	-	-
Other financial assets	-	-	-	-	424	424
Total financial assets	-	167,419	29,401	19,758	424	217,003
Financial liabilities						
Deposits	2.22	16,390	149,194	8,382	21,257	195,223
Commissions payable	-	-	-	-	-	-
Creditors and other payables	-	-	-	-	1,040	1,040
Total financial liabilities	-	16,390	149,194	8,382	22,297	196,263
Net financial assets/(liabilities)		151.028	(119,793)	11,376	(21,824)	20,737

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			
	Weighted	Floating	Fixed interest rate		Non-interest	Amount per
2019	average effective	interest rate	1 year or less	1 year or more	bearing	Statement of Financial Position
Financial assets	interest rate					
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	-	-	-	-	1,033	1,033
Total financial liabilities	-	55,517	223,876	5,089	3,677	288,159
Net financial assets/(liabilities)		146,986	(166,555)	39,248	4,504	24,183
2018						
Financial assets						
Cash and cash on hand	0.50	14,526	-	-	-	14,526
Due from other financial institutions	2.13	-	24,507	-	-	24,507
Investment securities	2.65	7,034	-	-	-	7,034
Loans and advances	4.84	145,858	4,894	19,758	-	170,511
Commission receivables	-	-	-	-	-	-
Other financial assets	-	-	-	-	424	424
Total financial assets	-	167,419	29,401	19,758	424	217,003
Financial liabilities						
Deposits	2.22	16,390	149,194	8,382	21,257	195,223
Commissions payable	-	-	-	-	-	-
Creditors and other payables	-	-	-	-	1,040	1,040
Total financial liabilities	-	16,390	149,194	8,382	22,297	196,263
Net financial assets/(liabilities)		151.028	(119,793)	11,376	(21,824)	20,737

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 +/- 50 basis points (2018: +/- 25 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)	
	2019	**2018**	**2019**	**2018**
50 basis points increase (2018:25bps)	339	36	339	36
50 basis points decrease (2018: 25bps)	(339)	(36)	(339)	(36)

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. As set out in note 8.2, these investments were designated at FVTPL upon adoption of AASB 9 at 1 July 2018.

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% (2018: +/- 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	
	2019	**2018**	**2019**	**2018**
10% increase (2018:10%)	21	30	10	30
10% decrease (2018: 10%)	(21)	(30)	(10)	(30)

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 7.9. 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 2019, the Group did not repossess any residential properties (2018: one property with a fair value of $270,000).

Concentrations of credit risk – Banking activities

Historically, the Bank has been exposed to credit concentration risk by lending predominately to customers in Western Australia. Since the completion of the merger with Finsure, 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 Group also monitors concentration of credit risk by purpose. An analysis of concentrations of credit risk at the reporting date is shown below:

		Consolidated		Bank
In thousands of AUD	**2019**	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Owner occupier home loans	111,732	92,068	111,732	92,068
Investment home loans	78,297	54,291	78,297	54,291
Commercial loans	22,377	21,373	24,748	21,373
Secured personal loans	1,105	1,430	1,105	1,430
Unsecured personal loans	208	861	208	861
Overdrafts	445	443	445	443
	214,164	170,465	216,535	170,465

As at 30 June 2019 there was one borrower (2018: two) who individually has facilities which represent 10% or more of the regulatory capital base. The total of these facilities which represent loans plus undrawn credit facilities amount to $2,978,173 (2018: $5,894,251).

i. Credit quality – loans and receivables

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

		Consolidated		Bank
In thousands of AUD	**2019**	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Past due but not impaired				
30 days & less than 90 days	877	1,851	877	1,851
90 days & less than 182 days	542	621	542	621
182 days or more	575	1,320	575	1,320
	1,994	3,792	1,994	3,792
Impaired – mortgage loans	-	-	-	-
Impaired – personal loans	-	18	-	18
Neither past due or impaired	212,170	166,655	214,541	166,655
Total loans and advances	214,164	170,465	216,535	170,465

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.4 Credit risk (continued)

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 2019	2018	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	85	62	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

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

In thousands of AUD	Consolidated 2019 $	2018 $	Bank 2019 $	2018 $
Long Term Credit Rating				
1 (AAA to AA-)*	-	15,539	-	15,539
2 (A+ to A-)*	26,344	7,971	26,344	7,971
3 (BBB+ to BBB-)*	2,000	997	2,000	997
Unrated	4,000	-	4,000	-
	32,344	24,507	32,344	24,507

Investment securities

In thousands of AUD	Consolidated 2019 $	2018 $	Bank 2019 $	2018 $
Long Term Credit Rating				
1 (AAA to AA-)*	45,890	7,034	45,890	7,034
2 (A+ to A-)*	-	-	-	-
	45,890	7,034	45,890	7,034

** Or equivalent rating by other rating agencies*

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.4 Credit risk (continued)

Accrued commission receivable and other debtors

In thousands of AUD	Consolidated 2019 $	Consolidated 2018 $	Bank 2019 $	Bank 2018 $
Long Term Credit Rating				
1 (AAA to AA-)*	173,914	-	-	-
2 (A+ to A-)*	26,579	-	-	-
3 (BBB+ to BBB-)*	24,414	-	-	-
Unrated	59,624	505	1,941	505
	283,311	505	1,941	505

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-.

Accounting policy - Recognition and measurement

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. Currently, the Group has 3 loans totalling $540,410 which have been re-negotiated (2018: $nil).

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. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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.

The Group's policy is to apply a minimum level of 13% (2018: 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% (2018: 13%); the Board has determined a target liquidity trading range of 14% - 19%. 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 2019 there were no deposits greater than 10% of total liabilities (2018: 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	**2019**	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
High quality liquid assets	90,321	36,263	87,625	36,263
Adjusted liability base for regulatory purposes	397,411	210,263	328,807	210,263
Liquidity ratio	22.7%	17.2%	26.6%	17.2%

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.

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.6 Operational risk (continued)

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
- 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

5.1.7 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 abilities according to a hierarchy that reflects the observability of significant market inputs. The three levels of the hierarchy are described below:

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

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:

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)

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.

	Consolidated			
	Fair value		**Carrying amount**	
In thousands of AUD	**2019 $**	**2018 $**	**2019 $**	**2018 $**
Financial assets				
Cash and cash equivalents	19,381	14,529	19,381	14,529
Accrued commission receivable	12,826	-	12,826	-
Due from other financial institutions	32,344	24,507	32,344	24,507
Investment securities	46,545	7,060	45,890	7,034
Loans and advances	202,816	168,012	214,323	170,511
Other receivables	2,343	505	2,343	505
Other financial assets	304	424	304	424
Total financial assets	315,904	215,037	327,411	215,037
Financial liabilities				
Deposits	287,126	195,223	287,126	195,223
Accrued commission payable	11,652	-	11,652	-
Creditors and other payables	3,158	1,040	3,158	1,040
Total financial liabilities	301,936	196,263	301,936	196,263
	Bank			
Financial assets				
Cash and cash equivalents	17,431	14,529	17,431	14,529
Due from other financial institutions	32,344	24,507	32,344	24,507
Investment securities	46,545	7,060	45,890	7,034
Loans and advances	205,186	168,012	216,891	170,511
Other receivables	2,976	505	2,976	505
Other financial assets	142	424	142	424
Total financial assets	304,624	215,037	315,674	217,510
Financial liabilities				
Deposits	287,126	195,223	287,126	195,223
Creditors and other payables	1,034	1,040	1,034	1,040
Total financial liabilities	288,160	196,263	288,160	196,263

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 (2018: 17.5%).

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	**2019**	**2018 $**	**2019 $**	**2018 $**
Tier 1 capital	25,317	20,752	26,395	20,752
Tier 2 capital	446	342	446	342
Total regulatory capital	25,763	21,094	26,841	21,094
Risk weighted assets	126,579	95,968	125,849	95,968
Capital adequacy ratio	20.35%	21.97%	21.33%	21.97%

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**	**2019 $**	**2018 $**
Share capital		99,188	24,080

Movements in ordinary shares on issue		**Number of shares**	**2019 $**	**Number of shares**	**2018 $**
Beginning of the financial year		25,907,066	24,080	22,521,066	19,350
Issued during the year in a placement		15,385,000	20,002	3,386,000	4,730
Acquisition of Finsure		40,750,000	52,975	-	-
Exercise of performance rights		373,333	301	-	-
Expiry of unlisted options	5.2.3	-	1,830	-	-
		82,415,399	99,188	25,907,066	24,080
Less equity raising costs	5.2.4	-	(2,620)	-	(1,630)
		-	96,568	-	22,450

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	
	2019 $	**2018 $**
Balance at the beginning of the year	1,830	1,830
Transfer to share capital upon expiry of listed options	(1,830)	-
Balance at the end of the year	-	1,830

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	
	2019 $	**2018 $**
Balance at the beginning of the year	1,630	1,394
Equity raising costs incurred	1,277	286
Deferred tax recognised directly in equity	(287)	(50)
Balance at the end of the year	2,620	1,630

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. 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	**2019 $**	**2018 $**
Net profit/(loss) attributable to ordinary share holders	3,614	(406)

Weighted average number of ordinary shares	**2019**	**2018**
for basic earnings per share	70,324,932	23,126,450
for diluted earnings per share	71,558,495	23,126,450
Basic earnings per share (cents)	5.14	(1.80)
Diluted earnings per share (cents)	5.05	(1.80)

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 2019 (2018: nil).

Franking credit balance

In thousands of AUD	**2019 $**	**2018 $**
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% (2018: 27.5%)	2,540	2,535
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	5
Franking credits available for subsequent reporting periods at 30% (2018: 27.5%)	2,542	2,540

6. GROUP STRUCTURE

6.1.1 Investments in subsidiaries

		Bank	
In thousands of AUD	**Note**	**2019 $**	**2018 $**
Investments in subsidiaries at cost	6.1.2	61,925	-

Subsidiaries

Subsidiary name	Segment	Ownership	
		2019	**2018**
Finsure Holding Pty Ltd	Aggregation	100%	-
Finsure Finance & Insurance Pty Ltd	Aggregation	100%	-
Finsure Domain Names Pty Ltd	Aggregation	100%	-
Finsure Wealth Pty Ltd	Aggregation	100%	-
Beagle Finance Pty Ltd	Aggregation	100%	
Smart Finance & Wealth Pty Ltd	Aggregation	100%	-
1300 Home Loan Holdings Pty Ltd	Aggregation	100%	-
Mystro CRM Pty Ltd	Aggregation	100%	-
Australian Asset Aggregation Pty Ltd	Aggregation	51%	-
Fintek Pty Ltd	Aggregation	60%	-
Iden Holdings Pty Ltd	Wholesale	100%	-
Better Choice Home Loans Pty Ltd	Wholesale	100%	-
Future Financial 1 Pty Ltd	Wholesale	100%	-
Pioneer Mortgage Holdings Pty Ltd	Wholesale	100%	-
Romavale Pty Ltd	Wholesale	100%	-
Australian Capital Home Loans Pty Ltd	Wholesale	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.

6.1.2 Acquisition of subsidiaries

On 17 September 2018, the Company acquired 100% of the shares and voting interests in Finsure Holding Pty Ltd, and its controlled entities ("Finsure"). Finsure is one of Australia's largest mortgage aggregators and mortgage managers. John Kolenda, a director of the Company was the major shareholder and chairman of Finsure.

Our aim is to become a bank of scale, underpinned by a sustainable broker and customer friendly business model. The acquisition of Finsure will enable the Group to broaden its distribution capabilities and diversify its revenue streams. The acquisition is expected to assist the Group increase its product offerings to the Australian market, leveraging Finsure's strong penetration into the broker market and benefit from its proprietary processes and systems, with the objective of increasing lending and deposit growth from a largely branchless distribution strategy.

6. GROUP STRUCTURE

6.1.2 Acquisition of subsidiaries (continued)

For the period 17 September 2018 to 30 June 2019, Finsure contributed revenue of $197,041,000 and profit of $5,456,000. If the acquisition had occurred on 1 July 2018, the Company estimates that consolidated revenue would have been $230,975,000 and consolidated profit after tax would have been $6,100,000 after adjusting for transaction costs incurred with the merger between the Company and Finsure. Subsequent to the acquisition, the Company injected further equity of $8,950,000 into Finsure.

A. Consideration transferred

The acquisition of Finsure was effected through the Company issuing 40,750,000 ordinary shares to the shareholders of Finsure in exchange for 100% of the fully paid ordinary shares on issue. The fair value of the shares issued was $1.30 per share which was equal to the value of the shares issued in a placement (raising approximately $20,000,500) as described in Note 5.2.2.

B. Acquisition-related costs

The Company incurred acquisition-related costs of $860,000 relating to external advisor and legal costs. These costs have been expensed in accordance with the requirements of AASB 3 *Business Combinations*.

C. Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition:

In thousands of AUD	
Cash and cash equivalents	294
Trade and other receivables	217,540
Property, plant and equipment	362
Intangible assets	24,167
Trade and other payables	(185,474)
Provisions	(825)
Borrowings	(11,003)
Deferred tax liabilities	(11,258)
Total identifiable net assets acquired	33,803

D. Goodwill

Goodwill arising from the acquisition has been recognised as follows:

In thousands of AUD	
Consideration transferred	52,975
Fair value of identifiable net assets	33,803
Goodwill	19,172

Accounting policy - Recognition and measurement

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.

7. OTHER NOTES

7.1 Property, plant and equipment

In thousands of AUD	Note	Consolidated 2019 $	Consolidated 2018 $	Bank 2019 $	Bank 2018 $
Freehold land and buildings – at fair value		520	520	520	520
Accumulated depreciation		(14)	(7)	(14)	(7)
		506	513	506	513
Office equipment and leasehold improvements		1,343	263	280	263
Accumulated depreciation		(1,019)	(185)	(227)	(185)
		324	78	53	78
Motor vehicles		88	88	88	88
Accumulated depreciation		(31)	(21)	(31)	(21)
		57	67	57	67
Computer equipment and IT hardware		749	320	357	320
Accumulated depreciation		(439)	(191)	(238)	(191)
		310	129	119	129
Total property, plant and equipment		1,197	786	735	786

Reconciliations of the carrying value for each class of property, plant and equipment are set out below:

Consolidated *In thousands of AUD*	Freehold Land & Buildings $	Office Equip & L/H imp $	Motor vehicles $	Computer equip & IT hardware $	Total $
Opening written down value at 1 July 2018	513	77	67	129	786
Additions	-	26	-	189	215
Additions through acquisition of Finsure	-	295	-	66	362
Depreciation	(7)	(74)	(10)	(74)	(165)
Closing written down value at 30 June 2019	506	324	57	310	1,197

Bank *In thousands of AUD*	Freehold Land & Buildings $	Office Equip & L/H imp $	Motor vehicles $	Computer equip & IT hardware $	Total $
Opening written down value at 1 July 2018	513	77	67	129	786
Additions	-	20	-	37	57
Depreciation	(7)	(42)	(10)	(47)	(108)
Closing written down value at 30 June 2019	506	53	57	119	735

The freehold land and buildings consists of an office property in Kalgoorlie, Australia. Management determined that this constitutes a single class of asset under AASB 13, based on the nature, characteristics and risk of the property. The Company's land and buildings were valued in June 2019 by an independent licensed valuer. Fair value was determined on the basis of capitalising a fair net rental and comparable sales method (Fair Value Hierarchy 3). At the time of valuation there were limited recent market sales of a similar style and aged style of improvements; however the most comparable sales were used to confirm the valuation determined by calculating a fair net rental. Significant unobservable valuation inputs:
Fair net rental $53,130 per annum
Capitalisation Rate: 10.5%

NOTES TO THE FINANCIAL REPORT

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.

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.

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
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 retained earnings.

7.2 Goodwill and other intangible assets

In thousands of AUD	Consolidated 2019 $	Consolidated 2018 $	Bank 2019 $	Bank 2018 $
Goodwill – at cost	19,172	-	-	-
Brandnames, trademarks and domain names	16,572	-	132	-
Software	10,646	2,070	3,274	2,070
Accumulated amortisation	(1,832)	(121)	(302)	(121)
	8,814	1,949	2,972	1,949
Broker relationships	4,075	-	-	-
Accumulated amortisation	(1,415)	-	-	-
	2,660	-	-	-
Total goodwill and other intangibles	47,218	1,949	3,104	1,949

Reconciliation of intangible assets

Consolidated *In thousands of AUD*	Goodwill	Brand names & trademarks $	Software $	Broker relationships $	Total $
Opening balance at 1 July 2018	-	-	1,949	-	1,949
Additions	-	132	2,606	-	2,738
Additions through acquisitions	19,172	16,440	4,738	2,988	43,338
Depreciation	-	-	(478)	(329)	(807)
Closing balance at 30 June 2019	19,172	16,572	8,814	2,660	47,218

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 2018	-	-	1,949	-	1,949
Additions	-	132	1,203	-	1,335
Depreciation	-	-	(180)	-	(180)
Closing balance at 30 June 2019	-	132	2,972	-	3,104

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	2019	2018
	$	$
Aggregation	12,000	-
Wholesale	1,000	-
Banking	6,172	-
Total goodwill	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	**2019**	**2018**
Discount rates (post-tax)	12-14%	-
Terminal value growth rate	2.5%	-
Budgeted revenue growth rates	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.

No impairment loss has been recognised for any CGU at 30 June 2019.

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%	3.1%	1.1%
Budgeted revenue growth	(6.2%)	(8.3%)	(3%)

7.3 Provisions

		Consolidated			**Bank**
In thousands of AUD	**Note**	**2019**	**2018**	**2019**	**2018**
		$	**$**	**$**	**$**
Provision for annual leave		973	252	275	252
Provision for long service leave		319	30	99	30
Total provisions		1,292	282	374	282

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	**2019 $**	**2018 $**
Short-term employee benefits	2,011	1,089
Post-employment benefits	102	89
Other long-term benefits	611	240
	2,724	1,418

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 Goldfields Money Equity Incentive Plan (now the "BNK Equity Incentive Plan" or "the Plan") at the 2016 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 3 February 2017, 40,000 performance rights were granted to Mr Simon Lyons in recognition of his performance for the year ended 30 June 2016 ('FY16 Bonus'). These performance rights grant Mr Lyons the opportunity to be granted 40,000 ordinary shares in the Company subject to Mr Lyons remaining in service for a period of 12 months from the grant date. These performance rights were exercised during the year ended 30 June 2019;
- 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;
- 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'). These performance rights vest subject to the employees remaining employed by the Company until 1 July 2020.
- 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.
- 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 2020, 1 July 2021 and 1 July 2022.

7. OTHER NOTES

7.4.2 Share-Based Payments (continued)

Performance rights – fair value and vesting conditions

a) The fair value of the FY16 Bonus performance rights of $40,600 was determined with reference to the share price on the grant date of $1.015. The fair value of the grant was recognised over the 12 month vesting period. The amount recognised in profit and loss for the year ended 30 June 2019 in relation to these performance rights was $nil (2018: $25,452).

b) 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 BNKEIP rights expire on the earlier of their expiry date or termination of the individual's employment. As set out in the Remuneration Report, the directors' exercised their discretion to vest the performance rights in September 2018 for Mr Lyons and Mr Ellis. Mr Cowell's remaining 50% are subject to ongoing review.

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 2019 in relation to the BNKEIP performance rights was $309,884 (2018: $185,208).

c) 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 2019 in relation to these performance rights was $88,681 (2018: $58,878).

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 2019 in relation to these performance rights was $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 2019 in relation to these performance rights was $131,192.

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 2019 in relation to these shares was $2,331 (2018: $1,226).

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.

Details of loans previously provided to KMP are detailed in the remuneration report. There were no loans to KMP at reporting date.

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.

	2019 $	2018 $
Total value of term and savings deposits from KMP at reporting date	44,322	97,944
Total interest paid/payable on deposits to KMP	1,171	5,752

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 Derek LaFerla– Lavan

Mr LaFerla was elected as a non-executive director in November 2015. Currently, Mr LaFerla is a Partner with Western Australian legal firm, Lavan which payments for legal services have been made on normal commercial terms.

	2019 $	2018 $
Legal service paid/payable during the year to Lavan	102,449	364,550
Amounts (owing)/payable at balance date	3,952	14,799

7.4.6 John Kolenda – Finsure Holding Pty Ltd

Mr Kolenda was appointed as a non-executive director of the Company on 13 March 2018 (executive director from 17 September 2018). Mr Kolenda was the Chairman and major shareholder of Finsure Holding Pty Ltd (Finsure), a mortgage aggregation and broking firm. The Company provided a secured loan of $3,100,000 to Finsure on 31 January 2018 to assist with the acquisition of a mortgage trail portfolio.

7. OTHER NOTES

7.4.6 John Kolenda – Finsure Holding Pty Ltd (continued)

Information regarding the loan to Finsure for the period it was not a controlled entity are set as follows:

	17 September 2018 $	2018 $
Interest received for the period Mr Kolenda was a KMP	48,201	97,683
Amounts (owing)/payable	2,809,232	2,892,973

The Company acquired Finsure on 17 September 2018. Mr Kolenda received 12,925,393 share in the Company as consideration for his shareholding in Finsure.

7.4.7 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.

	2019 $	2018 $
Sub-lease income and other amounts recouped for services from Aura Group	635,101	-
Amounts paid to Aura Group for services	263,933	-
Amounts receivable from Aura Group	194,495	-

7.4.8 John Kolenda – The Agency Limited

Mr Kolenda is a non-executive director of The Agency Limited. The Group has a receivable from Top Level Real Estate Pty Ltd, a subsidiary of The Agency Limited relating to car parking sub-lease income of $47,149.50. Sub-lease income recognised during the period was $6,194.

7.5 Auditor's remuneration

Auditors of the Group – KPMG

In thousands of AUD	2019 $	2018 $
Audit and review of the financial statements	267	75
Regulatory audit services	89	45
Total audit and assurance services	356	120
Transaction due diligence and advisory	-	100
Other advisory services	7	7
Total advisory and other services	7	107
Total amounts paid/payable to KPMG	363	227

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

7.7 Standby borrowing facilities

The Company has an overdraft facility of $1,200,000 (2018: $1,200,000) with CUSCAL Ltd which is secured by a cash deposit. As at 30 June 2019, the entire facility was unused (2018: $nil).

7.8 Material service contracts

The Company 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.

7.9 Commitments and contingencies

In thousands of AUD	**2019 $**	**2018 $**
(a) Capital expenditure	-	162
(b) Outstanding loan commitments		
Loans approved not advanced	6,187	4,634
Loan funds available for redraw	9,052	6,783
Unutilised overdraft limits	538	649
Total lending commitments	15,777	12,066
(c) Lease commitments		
Due not later than one year	1,373	64
Due more than one year but less than five years	4,358	28
Due more than five years	107	-
	5,838	92

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 Commitments and contingencies (continued)

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

7.10 Events subsequent to balance date

On 26 August 2019, the Company announced the appointment of Mr Jon Denovan as non-executive director with effect from 1 September 2019, and the retirement of Mr Derek LaFerla on 30 August 2019.

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 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced AASB *118 Revenue*, AASB 111 *Construction Contracts* and related interpretations.

The Group has adopted AASB 15 using the cumulative effect method (without practical expedients) with the effect of initially applying this standard at the date of initial application (i.e. 1 July 2018). Accordingly, the information presented for 2018 has not been restated.

There were no material changes to the manner in which revenue is recognised by the Group under AASB 15 compared to previous standards, and therefore no transitional adjustments.

8. ACCOUNTING POLICIES AND NEW STANDARDS

8.2.2 AASB 9 Financial Instruments (continued)

8.2.2 AASB 9 Financial Instruments

AASB 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces AASB 139 *Financial Instruments: Recognition and Measurement*. There was no material change to the amounts previously reported at 30 June 2018 under AASB 139 upon adopting AASB 9 with effect from 1 July 2018.

AASB 9 largely retains the existing requirements in AASB 139 for the classification and measurement of financial liabilities. However, it eliminates the previous AASB 139 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of AASB 9 has not had a significant effect on the Group's accounting policies related to financial liabilities. The impact of AASB 9 on the classification and measurement of financial assets is set out below.

Under AASB 9, on initial recognition, a financial asset is classified as measured at:

- amortised cost;
- fair value through other comprehensive income (FVOCI) – debt investment;
- FVOCI – equity investment; or
- Fair value through profit or loss (FVTPL).

The classification of financial assets under AASB 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. 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.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The Group has also adopted an expected credit loss model for credit losses in line with the requirements of AASB 9. Refer to note 3.2 for further details.

8. ACCOUNTING POLICIES AND NEW STANDARDS

8.2.2 AASB 9 Financial Instruments (continued)

The following accounting policies apply to the subsequent measurement of financial assets.

Classification of financial asset	Subsequent measurement accounting policy
Financial assets at fair value through profit or loss (FVTPL)	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see (ii) below). Interest income and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at fair value through other comprehensive income (FVOCI)	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see (ii) below). Interest income and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Equity investments at fair value through other comprehensive income (FVOCI)	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

The following table and the accompanying notes below explain the original measurement categories under AASB 139 and the new measurement categories under AASB 9 for each class of the Group's financial assets as at 1 July 2018.

Financial assets (Amounts in thousands of AUD)	Original classification under AASB 139	New classification under AASB 9	Original carrying amount under AASB 139	New carrying amount under AASB 9
Due from other financial institutions	Held to maturity	Amortised cost	24,507	24,507
Investment securities	Held to maturity	Amortised cost	7,034	7,034
Equity securities	Available-for-sale	FVOCI – equity instrument	424	424
Loans and advances	Loans and receivables	Amortised cost	170,510	170,510
Other debtors and prepayments	Loans and receivables	Amortised cost	712	712

8.3 New accounting standards for application in future periods

8.3.1 AASB 16 Leases

The Group is required to adopt AASB 16 Leases from 1 July 2019. AASB 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases for lessees.

A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments.

Short-term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the lease accounting requirements. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its operating leases of office space. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group regognised operating lease expense payments on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent there was a timing difference between actual lease payments and the expense recognised.

In addition, the Group will not be required to recognise onerous lease provisions for leases it assesses to be onerous. Instead, the Group will include the payments due under the lease in its lease liability.

Management estimates that upon transition to AASB 16, the Group will recognise a right of use asset of $4,501,000, a corresponding lease liability of $5,006,000 and a deferred tax asset of $151,000. The difference is expected to be a transitional adjustment to retained earnings.

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 2019 are in accordance with the Corporations Act 2001, including:
        i. Giving a true and fair view of its financial position as at 30 June 2019 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 2(a) 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 2019.

On behalf of the Board

Peter Wallace
Director

30 August 2019

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 2019 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 2019
- 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 the Group and Company are:

- Loans and Advances - Provision for credit losses

Additional ***Key Audit Matters*** we identified for the Group are:

- Acquisition Accounting
- 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 $0.3m – 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 amortised cost is a key audit matter due to the significance of loans and advances 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 Group and Company adopted AASB 9 *Financial Instruments* (AASB 9) on 1 July 2018.
 	
The Group and Company have developed an ECL model to determine its expected credit losses on its loans and advances. 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. The Group and Company engaged an external expert to assist in developing its ECL model.
 	
We used judgement to assess the ECL model's application of the requirements in AASB 9 including the assumptions made by the Group and Company in determining what represents a significant increase in credit risk and the method used to calculate the probability of default and loss given default based on the staging criteria required.
	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 the underlying core banking system to determine probability of default; and
	  - Management's review and approval of the ECL model and key assumptions used.
	• Assessed the methodology in the ECL model against the requirements in the accounting standards and our understanding of industry practice;
	• Assessed the integrity of the ECL model, including the accuracy of the underlying calculations;
	• Assessed the scope, competence and objectivity of the Group's external expert;
	• 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 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.

Acquisition Accounting $53million – Group	
Refer to Note 6.1.2 Acquisition of Subsidiaries and Note 7.2 Goodwill and other intangible assets to the Group Financial Report	
The key audit matter	**How the matter was addressed in our audit**
During the year, the Group acquired Finsure Holding Pty Ltd and its controlled entities through the issue of 40,750,000 of its own shares for a total consideration of $52.98million. Acquisition accounting was considered a key audit matter due to the: • Size of the acquisition having a pervasive impact on the financial statements including the recognition of Identified Intangible Assets (IIAs) relating to Brand names, Software and Broker relationships of $24.2million and resulting goodwill of $19.2million; and • Significant judgement required to assess the Group's purchase price allocation (PPA) acquisition accounting to: - value the Identified Intangible Assets using assumptions such as royalty rates and the cost to recreate method, and discount rates used; and - recognise deferred tax assets relating to carry forward losses and assess their recoverability. The Group engaged external experts to assist with these assessments. We involved our specialists to supplement our senior audit team members in assessing this key audit matter.	Our procedures included: • Assessed the Scheme of Arrangement related to the acquisition to understand the structure, key terms and conditions, and nature of purchase consideration; • Evaluated the accounting treatment of the purchase consideration and transaction costs against the criteria in the accounting standards; • Assessed the scope, competence and objectivity of the Group's external experts involved in the PPA for valuation of IIAs and recognition of tax balances; • Worked with our specialists to: - assess the Group's methodology to identify and value the IIAs. We did this by comparing to accepted industry practice and the requirements of the accounting standards; - assess the Group's assumptions used in the valuation of IIAs such as the royalty rates and discount rates. We compared the assumptions to published comparable company rates, 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; - independently develop a discount rate and royalty rate (for Brand name intangibles) range considered comparable, using publicly available data for comparable entities; and - assess the Group's recognition of carry forward tax losses available and tax balances recognised. • Assessment of the Group's disclosures in relation to the business acquisition, by comparing these disclosures to our understanding obtained from our testing and the requirements of the accounting standards.

Carrying Value of Goodwill and other intangible assets $47.2million – Group	
Refer to Note 7.2 to the Group Financial Report	
The key audit matter	**How the matter was addressed in our audits**
A key audit matter was the Group's annual testing of goodwill and other intangible assets for impairment. We focussed 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, emerging regulatory changes and industry developments making them judgemental in nature. The Group's modelling is highly sensitive to small changes in the discount rates and terminal value growth rates used. We focused on the Group's determination of CGUs and allocation of goodwill post acquisition of Finsure Holding Pty Ltd and its controlled entities. We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.	Our procedures included: • Considered the Group's determination of their CGUs based on our understanding of the operations of the Group's business, impact of the acquisition of Finsure Holding Pty Ltd and its controlled entities, 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 impairment for goodwill 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 accuracy 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 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

Net Present Value of future trail commission receivable $269.4million and payable $230.4million – Group	
Refer to Note 4.4 to the Group Financial Report	
The key audit matter	**How the matter was addressed in our audit**

The Group earns and pays trail commissions over the life of the loans resulting in a trail commission receivable of $269 million and trail commission payable of $230 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.
	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.

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 2019, 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 19 of the Directors' report for the year ended 30 June 2019.

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
30 August 2019

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 29 August 2018.

(a) Distribution of equity securities

Spread of holdings		Number of holders	Number of units	Percentage of total issued capital
1 -	1,000	51	44,307	0.054
1,001 -	5,000	1,606	3,863,599	4.688
5,001 -	10,000	49	657,408	0.798
10,001 -	100,000	112	9,627,949	11.682
100,001+		28	68,222,136	82.778
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	13,927,478	16.9
2	KAR WING NG	7,674,747	9.31
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,890,724	7.15
4	RESIMAC LIMITED	3,725,591	4.52
5	AOYIN GROUP LIMITED	2,629,996	3.19
6	CARPE DIEM ASSET MANAGEMENT PTY LTD <THE LOWE FAMILY A/C>	2,430,190	2.95
7	KOLEET PTY LTD <KOLENDA FAMILY A/C>	1,787,163	2.23
8	INVIA CUSTODIAN PTY LIMITED <B & D SUPERFUND A/C>	1,769,416	2.17
9	FIRSTMAC LIMITED	1,465,376	2.15
10	CITICORP NOMINEES PTY LIMITED	1,440,000	1.78
11	HOSKING FINANCIAL INVESTMENTS PTY LTD <HOSKING INVESTMENT A/C>	1,201,454	1.75
12	SAVOT 1 PTY LTD <THE SAVINS FAMILY A/C>	1,153,334	1.46
13	BVC INVESTMENTS PTY LTD <BVC UNIT A/C>	1,153,334	1.4
14	MR SIMON BEDNAR + MRS JENNIFER BEDNAR <BEDNAR S & J A/C>	1,153,333	1.4
15	VANVAL INVESTMENTS PTY LTD <THE VANVAL FAMILY A/C>	1,133,721	1.4
16	NOAH JAMES INVESTMENTS PTY LTD <THE ROCCO VENEZIANO FAMILY>	1,133,721	1.38
17	SIMON PETER LYONS + JENNIFER CORAL LYONS	948,000	1.15
18	ZACH VENEZIANO PTY LTD <VENEZIANO SUPER FUND A/C>	855,531	1.04
19	ONE MANAGED INVT FUNDS LTD <AURA SPECIAL OPPS FUND VIII>	808,913	0.98
20	K M K SUPER HOLDINGS PTY LTD <KMK SUPERANNUATION FUND A/C>	745,000	0.9
	TOTAL	**53,734,444**	**65.2**