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

25 August 2023

BNK Banking Corporation Limited – Full Year Final Report (Appendix 4E) for the year ended 30 June 2023

The Directors of BNK Banking Corporation Limited (the "Company") are pleased to announce the audited results of the Company for the year ended 30 June 2023 as follows:

Results for announcement to the market

Extracted from the audited Financial Statements for the year ended	**Movement**	**$'000 30 June 2023**	**$'000 30 June 2022**
Revenue from continuing operations	210%	66,309	21,411
Revenue from discontinuing operations	-	-	266,225
Profit/(loss) after tax attributable to members	(107%)	(3,935)	59,787
From continuing operations (excl. gain on sale of discontinuing operations)	*68%*	*(3,935)*	*(12,391)*
From discontinuing operations	-	-	*72,178*

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

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

	30 June 2023	**30 June 2022**
Net Tangible Assets per share	$1.02	$1.55

The remainder of the information requiring disclosure to comply with Listing Rule 4.3A is contained in the attached copy of the Financial Statements and comments on performance of the Company included in the Investor Presentation dated 25 August 2023.

The following subsidiaries were disposed of during the year ended 30 June 2023:

Future Financial 1 Pty Ltd (previously 100% owned)
Romavale Pty Ltd (previously 100% owned)
Australian Capital Home Loans Pty Ltd (previously 100% owned)

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

Yours faithfully

Sophie Raven
Company Secretary

BNK Banking Corporation Limited
Annual Financial Report

ABN: 63 087 651 849

30 June 2023

Contents

CORPORATE INFORMATION

ACN: 087 651 849

Directors

Mr. Don Koch	(Chairman and Non-Executive Director)
Mr. Jon Denovan	(Independent Non-Executive Director)
Ms. Elizabeth Aris	(Independent Non-Executive Director
Ms. Michelle Guthrie	(Independent Non-Executive Director) (resigned 31 July 2023)
Mr. Calvin Ng	(Non-independent, Non-Executive Director)
Mr. Daniel Crennan	(Independent Non-Executive Director)
Mr. David Gration	(Non-independent, Non-Executive Director)

Company Secretary
Ms Sophie Raven

The registered office and principal place of business of the Company is:
Level 14, 191 St George's Terrace
Perth WA 6000
Phone: +(618) 9438 8888

Other Locations:
Level 5, 50 Cavill Avenue
Surfers Paradise Qld 4217

Sydney Office
Suite 11.01, Level 11, 9 Castlereagh Street
Sydney NSW 2000

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

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

Auditors:
KPMG
300 Barangaroo Avenue
Sydney NSW 2000

Website Address:
www.bnk.com.au

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

MESSAGE FROM OUR CHAIRMAN, DON KOCH

Dear Shareholder,

During the 2023 Financial Year, BNK Group delivered on its strategic initiatives ahead of target, whilst providing substantial returns to shareholders via a fully franked special dividend. The growth of BNK's portfolio was achieved without sacrificing credit quality and is well positioned to continue its positive momentum in earnings during FY24.

FY23 Results

Bank Cash NPAT was -$1.5 million. A 30% improvement on the previous year.

Crucially the bank achieved cash profit in Q4 FY23. This significant milestone was reached ahead of the original FY24 timeline.

The Company enters FY24 in a much stronger position than it was in 12 months ago with solid results across all key metrics. Net interest income grew by 46% and Bank Net Interest Margin increased by 6bps.

A full explanation of the financial results is contained within the Operating and Financial Review.

Milestone Results Achieved Across The Business

The past 12 months have seen BNK exceed many of its key targets that were set at the beginning of the financial year.

A direct loan to deposit ratio of 88% demonstrates BNK's continued ability to raise deposits to fund growth. BNK closed out FY23 with a 30% year-on-year increase in its total deposits.

Total on balance sheet loans grew by 37% in FY23 to $1.3b and the business remains well capitalised with a capital adequacy ratio of 22.84%.

Importantly, the strategic decision to expand the business into a higher margin lending space has proven successful, exceeding the higher margin expansion target and achieving a $195m portfolio. The margin transformation from this strategy has been a significant factor in BNK achieving cash profit in Q4 ahead of schedule, and forms one of the foundation pieces to which BNK will benefit from into the future.

The material return to shareholders in the form of a fully franked special dividend of $0.34 per share following the sale of Finsure, and the capital return of $0.16 per share were both other highlights during FY23.

The business continues to improve its geographic mix of loans and lower LVR categories. The growth in Net Interest Margin, despite industry headwinds, is another positive endorsement of BNK's competitive product mix. All of BNK's growth has been achieved whilst maintaining strong underlying portfolio dynamics, with high quality customers, low arrears rates and capital efficiency.

Board Changes

During March 2023 BNK welcomed non-bank lender, Firstmac, as a substantial shareholder. After increasing their stake in the business to 19.9%.

This followed the decision by two non-executive directors, Calvin Ng and John Kolenda, to reduce their shareholding in the business.

Firstmac have now become an important institutional investor in BNK and adds significant strength to the shareholder base.

Following the transaction, Mr Kolenda also announced he was stepping down from the board, with David Gration appointed to fill the vacant board position. Mr Gration is a highly experienced financial services executive with over 30 years of retail banking experience. Mr Gration will be an immensely valuable member of the board as the business continues its growth trajectory, business diversification and margin transformation.

In July 2023 Michelle Guthrie resigned as a director. I thank Ms Guthrie and Mr Kolenda for their contribution to the Board.

MESSAGE FROM OUR CHAIRMAN (continued)

Summary

The results of FY23 demonstrated that BNK is committed to executing its strategy and delivering on its key business targets.

We successfully embarked on a journey of business transformation towards higher margin returns and opportunity - ultimately emerging with a business that is cash profitable.

Whilst the task of business transformation is far from complete, the results achieved in just 12 months are more than encouraging.

We now have an excellent growth platform to continue this earnings momentum into FY24 and we will continue to make investments that drive organic growth.

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 2023 and the auditor's report thereon.

DIRECTORS

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

Mr Don Koch	Chairman and Non-Executive Director
Mr Jon Denovan	Deputy Chairman and Non-Executive Director
Ms Elizabeth Aris	Non-Executive Director
Ms Michelle Guthrie	Non-Executive Director (resigned 31 July 2023)
Mr Calvin Ng	Non-Executive Director
Mr Daniel Crennan	Non-Executive Director (appointed 14 October 2022)
Mr David Gration	Non-Executive Director (appointed 27 April 2023)
Mr Peter Hall	Non-Executive Director (retired 1 November 2022)
Mr John Kolenda	Executive Director (appointed 30 September 2022 and resigned 27 April 2023)

CURRENT DIRECTORS

Don Koch (Independent Chairman and Non-Executive Director)

Mr Koch was appointed a Director on 11 June 2019 and Chairman of the Group on 7 July 2021.

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 was the former CIO and part of the team that launched ING Direct in Australia. Mr Koch is a Governor on the Cerebral Palsy Association Research Foundation, Co-Chair and Advisor with the UTS Business School Industry Advisory Board, Chair of Cache Investment Management, (an Investment Management platform) Chair of ResusRight (a medtech manufacturer), Director of Target Fifteen and a Board Member of Glaucoma Australia. He holds a Masters in Banking and Finance from UTS, is a graduate of the Australian Institute of Company Directors and has completed the International Directors Program with INSEAD in Switzerland.

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

Jon Denovan (Deputy Chairman and Independent Non-Executive Director)

Mr Denovan is a lawyer with significant banking, commercial, and property experience. Mr Denovan is a Special Counsel with leading national law firm Dentons having previously been the Managing Director/Partner of that firm (then known as Gadens Lawyers Australia Limited).

Mr Denovan is recognised as a leading lawyer in financial services regulation in Australia.

Mr Denovan is currently a director and deputy chair BNK Banking Corporation Limited, chair of Sydney Bus Museum, and a director numerous other finance and property private companies. He was previously chair of Trainworks Limited (a NSW government instrumentality), a director of Aussie Home Loans Limited, the Credit and Investments Ombudsman Limited (CIO), and the Mortgage & Finance Association of Australia (MFAA). Mr Denovan was the first honorary member of the Mortgage & Finance Association of Australia in recognition of his contribution to the mortgage industry. Complementing Mr Denovan's skills in the finance industry is his significant experience in the property industry having worked with many leading property companies.

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

Elizabeth Aris (Independent Non-Executive Director)

Ms Aris was appointed a Director on 18 June 2021 and is a senior business executive with experience in the US, China and Australia. Ms Aris is a Board Member or Advisor to a number of growth stage Technology businesses operating in multiple countries, and was recently Group Executive, Enterprise & Government at TPG Telecom. Prior to that Ms Aris held senior executive positions at Tasmanet, Trujillo Technology Group, Alcatel-Lucent (now Nokia) and Telstra, and consulting roles with Microsoft and Sprint. Ms Aris commenced her career in banking, and was a member of the Retail Bank executive team at Westpac.

DIRECTORS' REPORT (continued)

Elizabeth Aris (Independent Non-Executive Director) (Continued)

Ms Aris has served as a Non-Executive Director in both publicly listed and private companies and spent 5 years in New York establishing a technology start up from concept to operations. Ms Aris holds a Bachelor of Commerce (UWA) and a Post Graduate Diploma of Corporation Finance (UNSW).

Ms Aris is the Chair of the Board Credit Committee, a member of the Audit Committee and the Remuneration Committee.

During the last three years, Ms Aris has served on the Board of Vivid Technology Limited (Non-Executive Director from October 2018 to July 2019).

Calvin Ng (Non independent Non-Executive Director)
Mr Ng was appointed a Director on 15 July 2021. Mr Ng has significant investment banking, mergers & acquisitions and funds management experience. Mr Ng is a co-founder and Managing Director of the Aura Group, an independent corporate advisory, funds and wealth management firm managing and advising over A$1.5b in assets. He was also a co-founder of Finsure, which merged with Goldfields Money Limited in 2018 to form BNK. Mr Ng holds a Bachelor of Commerce and Bachelor of Laws (UNSW) and was admitted to practice in the Supreme Court of NSW in 2010.

Mr Ng has served on the Board of the following listed companies in the last three years:

- Aura FAT Projects Acquisition Corp (Non-Executive Director from April 2022 to current)
- Catapult Group International Limited (Non-Executive Director from November 2013 to November 2019)

Daniel Crennan (Independent Non-Executive Director)
Mr Crennan was appointed a Director on 14 October 2022.
Mr Crennan was a barrister at the Victorian Bar including as a Queen's Counsel for 16 years until 2018. His areas of expertise included Banking and Finance, Continuous Disclosure and Markets. Mr Crennan was a director of a number of publicly listed and private companies prior to 2018.
Mr Crennan commenced as Deputy Chair and Head of Enforcement at the Australian Securities and Investments Commission in July 2018. He remained in that position until late 2020.

Since mid-2021, Mr Crennan has been the principal consultant at Credi Consulting, a boutique consulting firm specialising in strategic advice to participants in the financial system.

Mr Crennan is the Chair of the Risk & Compliance Committee.

David Gration (Non independent Non-Executive Director)
Mr Gration was appointed a Director on 27 April 2023.
Mr Gration is a highly experienced financial services executive with over 30 years of retail banking experience, including senior management roles at National Australia Bank, Suncorp and Firstmac Limited. Mr Gration was a senior member of the Firstmac executive team for over 10 years with his last executive role being General Manager, Sales and Operations.
Mr Gration has Law and Science degrees from Monash University and a Diploma in Financial Planning. Mr Gration is a Director of Firstmac Limited.

Mr Gration is a member of the Remuneration Committee.

DIRECTORS' REPORT (continued)

FORMER DIRECTORS

Michelle Guthrie (Independent Non-Executive Director)

Ms Guthrie was appointed a Director on 15 July 2021. Ms Guthrie has had an extensive career in media, entertainment, funds management, technology and professional services spanning more than 30 years, in both executive and non-executive roles. Ms Guthrie was Managing Director of the Australian Broadcasting Corporation between 2016 and 2018. Prior to that, Ms Guthrie held senior roles with Google, where she was the Managing Director of several divisions in APAC. Ms Guthrie was Managing Director of Providence Equity, a funds management firm based in Hong Kong, Chief Executive of Star Group and Corporate Counsel for Foxtel and News International. Ms Guthrie commenced her working career at Allen, Allen & Hemsley and holds a Bachelor of Arts and Law (Sydney).

Ms Guthrie has served on the Board of the following listed companies in the last three years:

- StarHub Limited (Non-Executive Director from August 2017 to date)
- Catapult Group International Limited (Non-Executive Director from December 2019 to date)
- Mighty Kingdom Limited (from November 2020 to date)

Ms Guthrie was a member of the Remuneration Committee. Ms Guthrie resigned as a Director effective 31 July 2023.

John Kolenda (Previous Executive Director)
Mr Kolenda was appointed to the Board on 30 September 2022 and ceased to be a Director on 27 April 2023.

Peter Hall (Previous Non-Executive Director)
Mr Hall was appointed to the Board in November 2015 and retired on 1 November 2022.

COMPANY SECRETARY

Sophie Raven
Ms Raven was appointed as company Secretary on 3 May 2023. Ms Raven is a corporate lawyer and company secretary, with extensive experience both in Australia with various ASX-listed companies and internationally, operating in the resources, technology, and fund management sectors. Prior to joining BNK Bank, Ms Raven has worked as a company secretary and legal counsel for other technology, resources and manufacturing companies, as well as practising as a corporate lawyer in South America, the Cayman Islands and Monaco.

Jessie Klaric
Ms Klaric was the previous Company Secretary from 14 March 2022 until 3 May 2023.

PRINCIPAL ACTIVITIES
The principal activities of the Group were the provision of retail and commercial banking and mortgage management.

DIRECTORS' REPORT (continued)

RECONCILIATION BETWEEN THE STATUTORY RESULTS (IFRS) AND THE MANAGEMENT REPORTED (NON IFRS) RESULTS

The discussion of operating performance in the Operating and Financial Review section of this report is presented on a statutory basis under IFRS with certain adjustments made to reflect a management reported basis of the underlying performance of the business, unless otherwise stated. These adjustments are made where the Directors believe non-recurring transactions within each reporting period may distort the comparison results within the Group's standard operating environment. Management reported results are non-IFRS financial information and are not directly comparable to the statutory results presented in other parts of this financial report. A reconciliation between the two is provided in this section and the guidance provided in Australian Securities and Investments Commission Regulatory Guide 230 *'Disclosing non IFRS financial information'* ('RG 230') has been followed when presenting the management reported results. Non-IFRS financial information has not been audited by the external auditor, but has been sourced from the financial records of the Group. The reconciliation between the statutory results (IFRS) and the management/underlying reported (non-IFRS) results is presented below:

	FY23	FY22	% change
Statutory Net (Loss)/Profit After Tax ($'000s)	**(3,935)**	**59,786**	**(106.6%)**
Revenue adjustments			
• Sale of equities	-	(319)	
Expense adjustments			
• Restructuring and transition costs	-	4,833	
• Share Based Payments	-	1,742	
• APRA Infringement Penalty	248	-	
Tax effect of adjustments	-	(745)	
Disposal of Subsidiary (net of tax)	-	(72,178)	
Underlying Net (Loss)/Profit after Tax ($'000s) (Management-reported results)	**(3,687)**	**(6,881)**	**(46.4%)**
Non-Cash Elements			
• Movement in Contracted Assets (NPV)	2,750	6,602	
• Depreciation/Amortisation (exc ROU Assets)	42	83	
Tax Normalised	(606)	(1,950)	
Cash Earnings (key metric below)	**(1,501)**	**(2,146)**	**(30.1%)**

The adjustments summarised above reflect the current year (FY23) impact of:
- The infringement penalty imposed by APRA.

Adjustments for the prior year (FY22) reflect the impact of:
- the gain on sale from the disposal of Finsure including distribution received (note 2.2.1);
- the costs related to the Finsure sale, including restructuring and accelerated share based payments (noted within operating expenses 2.4); and
- distribution received from an investment in Cuscal (noted within other income 2.3).

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

Key Metric *Amounts in thousands of AUD*	**30 June 2023 ($'000s)**	**30 June 2022 ($000s)**	**Movement**
Net interest revenue	18,808	12,924	45.5%
Net-commission (expense)/income	(3,712)	(4,808)	(22.8%)
Non-interest revenue/(expense)	3,913	3,306	18.4%
Gain from discontinued operations, net of tax	-	72,178	-
Statutory net (loss)/profit after tax	(3,935)	59,787	(106.6%)
Underlying net (loss) after tax	(3,687)	(6,881)	(46.4%)
Cash earnings (cont. ops) (normalised for tax)	(1,501)	(2,146)	(30.1%)
Total assets	1,679,790	1,435,284	17.0%
On balance sheet loans (net ECL)	1,348,691	984,171	37.0%
Off balance sheet lending portfolio	1,138,167	1,684,559	(32.4%)
Deposits	1,252,260	964,589	29.8%
Other key metrics			
Net interest margin	1.32%	1.26%	4.8%
Cost to income ratio	121.6%	191.6%	(36.5%)
Capital adequacy ratio	22.84%	47.51%	(51.9%)

DIRECTORS' REPORT (continued)

OPERATING AND FINANCIAL REVIEW

The Group recorded an underlying net loss after tax for the year ended 30 June 2023 of $3.9m (2022: loss of $6.9m for continuing operations). Cash earnings of ($1.5m) against 2022 ($2.1m) for continuing operations represent a strong signal towards cash profitability for the Group. Earnings per share for 30 June 2023 is (3.32c) (2022: continuing operations (10.70c)).

Settlements and loan-book growth

The Group increased its on balance sheet loans by 37% year on year. This was a combination of organic and inorganic growth supported with capital and deposit-raising initiatives during FY23. The Deposit growth of 30% resulted in a loan to deposit ratio of 88% demonstrating the ability to continue to raise deposits in the current environment which will fund growth.

As at 30 June 2023, the Bullion Trust warehouse's lending book had grown to $248.2m The warehouse further diversifies the Group's funding sources in a capital efficient manner. Loans originated into the warehouse are accounted for on balance sheet but the Group has achieved regulatory capital relief for the structure.

In March 2023, the Group purchased $150.6m of residential home loans from the Goldman Sachs warehouse at par value plus a premium of 1.25%. The premium ($1.88m) is to be amortised over the average life of the portfolio (4.6 years).

The Goldman Sach's warehouse's lending book is $75.3m as at 30 June 2023 following the successful sale of loans to both BNK ($150.6m) and Challenger Life Company Limited ($198.6m), a subsidiary of Challenger Limited. Prior to these sales, the Goldman Sach's loan portfolio reached $390m. The warehouse leverages the Groups specialist lending capabilities. Loans originated into the warehouse are not recognised on balance sheet. BNK receives servicing fees and a post term out profit share.

Following the Group's strategic pivot to focus on higher margin lending, the Group's total lending settlements reached $740.7m. On balance sheet settlements of $489.2m (for directly funded loans) represented a 15% increase on the comparative year driving the 46% increase in net interest income.

Section 5.1 of the annual report provides details on the material risks the Group is facing. There are sections on market, interest rate, credit, liquidity and operational risk which are the key risks facing the Group. There is also a section providing an overview of risk management, including roles and responsibilities.

Strong credit quality

The loan book comprises 96% residential mortgages with an average loan to valuation ratio of 57.5%.
Credit quality remains sound with loans more than 90 days in arrears equating to just 0.14% of total on balance sheet loans. No credit write-offs occurred in the year, and the business now reflects a diversified national lender.

Liquidity investments

The Group's cash and liquidity investments predominantly comprise physical cash, at call deposits, negotiable certificates of deposits, government (including semi-government) bonds, and floating rate notes. Liquidity management falls under the remit of Asset & Liability Committee (ALCO), which ensures the Group operates within its policy settings. The decrease in liquid assets during the year to $93m reflects the Capital Return and dividend payments distributed.

Operating expenses

The Group operating expenses decreased by 13% to $23.1m, compared to a 45.5% increase in Net Interest Income.

Capital

The CAR at 30 June 2023 of 22.84% presents the Group with further growth opportunity for both on-balance sheet lending assets as well as investing in growth.

Other than Option rights, no additional capital was issued during the financial year.

DIVIDENDS

During the year the following dividend was paid by the Company.

	Cents per share	Total amount $'000	Date of payment
Ordinary	0.34	40,359	26 July 2022
Total amount		**40,359**	

INTEREST IN SHARES AND OPTIONS OF THE COMPANY

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

	Number of ordinary shares	Number of options or performance rights over ordinary shares
Don Koch	-	-
Jon Denovan	-	-
Elizabeth Aris	10,000	-
Calvin Ng	4,554,628	-
Daniel Crennan	-	-
David Gration	-	-

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

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
D Koch	16	16	4	4	5	5	2	2	2	2
J Denovan	15	16	4	4	5	5	-	-	2	2
E Aris	15	16	3	4	-	-	2	2	2	2
M Guthrie	13	16	-	-	-	-	2	2	-	-
C Ng	14	16	-	-	-	-	-	-	-	-
D Crennan	8	10	-	-	3	4	-	-	-	-
D Gration	3	3	-	-	-	-	-	-	-	-
J Kolenda	8	9	-	-	-	-	-	-	-	-
P Hall	6	7	-	-	1	1	-	-	-	-

DIRECTORS' REPORT (continued)

CHANGES IN THE STATE OF AFFAIRS
In the opinion of the Directors, there were no significant changes in the state of affairs of the Company that occurred during the financial year under review.

EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR
On the 27th July 2023, BNK established a Self-Securitised Warehouse (PRIMUS Trust 2023-1R). The warehouse will initially hold $297m of Loan assets.
Ms Guthrie resigned as a Director effective 31 July 2023.

In the opinion of the Directors, there have been no other matters arising in the period between the end of the financial year and the date of this report 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 AND ADDRESSING CLIMATE RISK
The Company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

The Group acknowledges the global threat posed by climate change to the environment and economy, and supports initiatives to minimise the threat. The Group primarily services individuals through the provision of residential loans for the construction or purchase of houses, and mortgage brokers through the provision of aggregation services. The Group does not have any material exposure to environmentally sensitive industries.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS
No other matter, circumstance or likely development in the operations has arisen since the end of the financial year that has significantly affected or may significantly affect:

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

in the financial years subsequent to this financial year.

AUDIT SERVICES
Details of the amounts paid to the auditor of the Company, KPMG for audit and non-audit services for the year ended 30 June 2023:

	$
Audit and assurance services	
Audit and review of financial statements	473,253
Regulatory assurance services	156,475
Total audit and assurance services	629,728
Total amounts paid to KPMG	**629,728**

AUDITORS INDEPENDENCE DECLARATION
The lead auditor's independence declaration provided in accordance with S307C of the Corporations Act 2001 is set out on page 22 and forms part of the Directors' report for the financial year ended 30 June 2023.

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 2023 outlines the remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act. The Remuneration Report is presented under the following sections:

1. Introduction
2. Remuneration governance
3. Executive remuneration arrangements
    A. Remuneration principles and philosophy
    B. Approach to setting remuneration
    C. Detail of incentive plans
4. Executive remuneration outcomes for 2023 (including link to performance)
5. Executive contracts
6. Non-executive director remuneration (including statutory remuneration disclosures)
7. Additional disclosures relating to options, performance rights and shares
8. Loans to key management personnel and their related parties
9. Other transactions and balances with key management personnel and their related parties
10. Remuneration incentives approved subsequent to balance date

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

The table below outlines the KMP of the Group and their relevant changes during the year ended 30 June 2023:

Non-Executives

Director	Position	Appointment date	Resignation/ completion date
Don Koch	Non-Executive Director/Chairman	11 June 2019	-
Jon Denovan	Non-Executive Director	2 September 2019	-
Peter Hall	Non-Executive Director	13 November 2015	1 November 2022
Elizabeth Aris	Non-Executive Director	18 June 2021	-
Michelle Guthrie	Non-Executive Director	15 July 2021	[1] -
Calvin Ng	Non-Executive Director	15 July 2021	-
Daniel Crennan	Non-Executive Director	14 October 2022	-
David Gration	Non-Executive Director	27 April 2023	-
John Kolenda	Non-Executive Director	30 September 2022	27 April 2023

[1] Michelle Guthrie resigned 31 July 2023.

Executives

Executive	Position	Appointment date	Resignation/ completion date
Allan Savins	Chief Executive Officer	17 January 2022	-
Andrew Kitchen	Chief Financial Officer	26 October 2020	-
Dara Wettner	Chief Risk Officer	11 January 2021	-
Amber Smith	Chief Operating Officer	12 October 2020	28 April 2023
Andrew Bell	Chief Information Officer	11 May 2023	-

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

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

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

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

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

Use of remuneration consultants
No remuneration consultants were engaged by the Company for the year ended 30 June 2023.

Remuneration Report approval at 2022 Annual General Meeting (AGM)
The 2022 Remuneration Report received positive shareholder support at the 2022 AGM with a vote of 78.3%.

3. Executive remuneration arrangements

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

To this end, the Group applies the following principles to its remuneration framework:

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

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

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

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

Remuneration component	Vehicle	Purpose	Link to performance
Fixed remuneration	Represented by total employment cost (TEC). Comprises base salary, superannuation contributions and other benefits.	To provide competitive fixed remuneration set with reference to role, market and experience.	Group and individual performance are considered during the annual remuneration review.
Short term performance based incentive (STI)	Paid in cash or performance rights.	Rewards executives for their contribution towards achievement of Company outcomes, as well as their performance against individual key performance indicators (KPIs).	Linked to other internal financial measures, strategic objectives, risk management, compliance and leadership.
Long term incentive plan (LTI)	Performance rights.	Rewards executives for their contribution to the creation of shareholder value over the longer term.	Performance is measured against documented market outcomes over a specified period (eg 3 years).

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

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

3.3 Detail of incentive plans

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

Long-term incentive (LTI)
The previous LTI Plan was concluded following the sale of Finsure from the Group in February 2022. At that time all remaining Share options were either modified for release (as noted in the 2022 Annual report), or held awaiting vesting criteria to be reached.

A new LTI program is under development. There were no LTI's granted during the current reporting period.

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 STI and (LTI) grant performance period. These unvested benefits only vest subject to meeting the relevant LTI performance measures, subject to the Board's discretion.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED) (continued)

3.3 Detail of incentive plans (continued)

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

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

4.1 Executive remuneration outcomes for 2023 (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:

	2023	2022	2021	2020	2019
Profit/(loss)	(3,934,654)	59,787,040	5,659,000	3,824,000	3,614,000
Dividends paid	40,358,931	Nil	Nil	Nil	Nil
Share price at balance date	$0.485	$0.96	$0.735	$0.43	$0.64
Return on capital employed	(3.1%)	31.4%[1]	4.42%	3.50%	3.60%

[1] ROCE for continuing operations equates to (10.48%)

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

4.2 Dividends
During the reporting period, the following dividend was paid by the Company.

	Cents per share	Total amount $	Date of payment
Ordinary	0.34	40,358,931	26 July 2022
Total amount		**40,358,931**	

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

4.3 Remuneration of key management personnel

		Short-term benefits				Post-employ-ment	Other long term		Shared-based payments		Term-ination	Total	Performance related
		Salary & fees	Cash bonus	Non-monetary benefits (B)	Total	Super-annuation	Long service leave	Cash bonus	STI (A)	LTI (C)			
		$	$	$	$	$	$	$	$	$	$	$	%
Current Executives	**Year**												
Allan Savins[1]	**2023**	**529,716**	**-**	**-**	**529,716**	**27,500**	**61,938**	**100,000**	**-**	**-**	**-**	**719,154**	**0%**
	2022	380,452	50,000	-	430,452	32,707	-	-	33,500	225,246	-	721,905	31%
Andrew Kitchen[2]	**2023**	**329,336**	**-**	**10,000**	**339,336**	**27,500**	**226**	**33,583**	**-**	**-**	**-**	**400,645**	**0%**
	2022	330,256	-	10,000	340,256	27,500	-	-	-	159,415	-	527,171	30%
Dara Wettner[3]	**2023**	**275,878**	**-**	**-**	**275,878**	**27,500**	**193**	**27,789**	**-**	**-**	**-**	**331,360**	**0%**
	2022	266,349	-	-	266,349	25,731	-	-	6,000	136,846	-	434,925	31%
Andrew Bell[4]	**2023**	**41,293**	**-**	**-**	**41,293**	**3,998**	**3**	**-**	**-**	**-**	**-**	**45,294**	**0%**
	2022	-	-	-	-	-	-		-	-	-	-	-
Former Executives													
Amber Smith[5]	**2023**	**229,100**	**23,400**	**4,633**	**257,133**	**23,090**	**-**	**-**	**-**	**-**	**10,511**	**290,734**	**0%**
	2022	240,669	-	4,376	245,045	22,500	-	-	-	121,594	-	389,139	31%
Total KMP remuneration	**2023**	**1,405,323**	**23,400**	**14,633**	**1,443,356**	**109,588**	**62,360**	**161,372**	**-**	**-**	**10,511**	**1,787,187**	**0%**
	2022	1,217,726	50,000	14,376	1,282,102	108,438	-	-	39,500	643,101	-	2,073,141	31%

[1] Appointed Chief Executive Officer from 17 January 2022
[2] Appointed Chief Financial Officer from 26 October 2020
[3] Appointed Chief Risk Officer from 11 January 2021
[4] Appointed Chief Information Officer from 11 May 2023
[5] Appointed Chief Operating Officer from 12 October 2020 and resigned 28 April 2023

(A) – The fair value of performance rights granted as a STI is determined by recognising the grant date fair value over the relevant service condition period.
(B) – Non-cash benefits generally comprise car parking benefits
(C) – The fair value of performance rights is calculated at the grant date using the Monte-Carlo simulation model, taking into account the impact of the market and non-market conditions attached to the performance rights.

Only KMP employed during the current reporting period have been included in the comparable data for FY2022 as required under the Corporations Act.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

4.4 Analysis of cash bonuses included in remuneration – audited

Details of the vesting profile of the long term-term incentive cash bonuses awarded as remuneration to each key management personnel are detailed below:

	Included in remuneration
Allan Savins	$100,000
Andrew Kitchen	$33,583
Dara Wettner	$27,789

The amounts included in remuneration for the financial year represent the amount related to performance for the previous financial year based on achievements, as approved by the Remuneration Committee on 16 September 2022. 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.

4.5 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 and the Transformational Long Term Incentive Plan (TLTIP).

4.5.1 Rights over equity instruments granted as compensation – audited

During the reporting period no rights over ordinary shares in the Company were granted as remuneration to key management personnel.

4.5.2 Performance rights granted

During the reporting period no performance rights were granted to key management personnel.

4.5.3 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 FY23	% forfeited FY23	Financial years in which grant vests
Allan Savins	16,666	5 December 2019	100%	0%	2023
	40,000	28 August 2020	0%	0%	2025
	35,273	18 August 2021	0%	0%	2025[1]
	20,625	1 September 2021	0%	0%	2026
Andrew Kitchen	30,510	18 August 2021	0%	0%	2025[1]
Dara Wettner	25,425	18 August 2021	0%	0%	2025[1]
	5,000	1 September 2021	0%	0%	2026
Amber Smith	23,272	18 August 2021	0%	0%	2025[1]

[1] Performance Rights exercised during FY2022 but held in Escrow.

REMUNERATION REPORT (AUDITED)

4.5.4 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:

Current key management personnel

Participant	Granted in year $ (A)	Value of rights exercised in year $ (B)
Allan Savins	-	9,667

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

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

4.5.5 Summary of rights holdings

Current key management personnel

Participant	Held at 1 July 2022	Granted as remuneration	Exercised	Lapsed	Held at 30 June 2023	Vested during the year	Vested and unexercisable at 30 June 2023
Allan Savins	77,292	-	(16,667)	-	60,625	16,667	-
Andrew Kitchen	-	-	-	-	-	-	-
Dara Wettner	5,000	-	-	-	5,000	-	-

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
Allan Savins	$500,000 plus superannuation	None	Continuing with 3 month notice by either party
Andrew Kitchen	$315,000 plus superannuation	None	Continuing with 3 months' notice by either party
Dara Wettner	$273,000 plus superannuation	None	Continuing with 3 months' notice by either party
Andrew Bell	$300,000 plus superannuation	None	Continuing with 3 months' notice by either party

6. Non-executive director remuneration arrangements - Audited

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

REMUNERATION REPORT (AUDITED)

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

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 2021 AGM held on 25 November 2021 when shareholders approved an aggregate fee pool of $800,000 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 2023:

Type of Fee	Amount per annum (July 2022 to April 2023)	Amount per annum (May 2023 to June 2023)
Chairman base fee	$130,000	$110,500
Non-executive Director base fee	$70,000	$59,500
Chair of Board sub-committees	$10,000 per committee	$8,500 per committee
Membership of Board sub-committees	$5,000 per committee	$4,250 per committee

NEDs receive superannuation contributions of 10.5% (11.0% from 1 July 2023) of earnings but do not receive any other retirement benefits, nor do they participate in any incentive programs.
In April 2023, it was resolved that Director Fees would reduce by 15% for the period May 2023 to November 2023.

The remuneration of NEDs for the years ended 30 June 2023 and 30 June 2022 is detailed in table below.

		Short-term benefits			Post-employment	Long-term benefits	
		Salary & fees $	Non-monetary benefits	Other	Superannuation	Long service leave	Total
Non-executive directors							
Don Koch	**2023**	**151,125**	**-**	**-**	**15,868**	**-**	**166,993**
	2022	154,091	-	-	15,409	-	169,500
Jon Denovan	**2023**	**87,750**	**-**	**-**	**9,214**	**-**	**96,964**
	2022	89,924	-	-	8,992	-	98,917
Elizabeth Aris[1]	**2023**	**82,750**	**-**	**-**	**8,689**	**-**	**91,439**
	2022	77,311	-	-	7,731	-	85,042
Calvin Ng	**2023**	**68,250**	**-**	**-**	**7,166**	**-**	**75,416**
	2022	64,167	-	-	6,417	-	70,583
Daniel Crennan[3]	**2023**	**54,389**	**-**	**-**	**5,711**	**-**	**60,100**
David Gration[4]	**2023**	**10,625**	**-**	**-**	**1,116**	**-**	**11,741**
Former directors							
Michelle Guthrie[2]	**2023**	**68,958**	**-**	**-**	**7,240**	**-**	**76,198**
	2022	67,348	-	-	6,735	-	74,083
John Kolenda[5]	**2023**	**43,333**	**-**	**-**	**4,550**	**-**	**47,883**
	2022	-	-	-	-	-	-
Peter Hall[6]	**2023**	**16,667**	**-**	**-**	**1,750**	**-**	**18,417**
	2022	100,000	-	-	10,000	-	110,000
Total	**2023**	**583,847**	**-**	**-**	**61,304**	**-**	**645,151**
	2022	552,841	-	-	55,284	-	608,125

[1] Appointed 18 June 2021
[2] Appointed 15 July 2021 resigned 31 July 2023
[3] Appointed 14 October 2022
[4] Appointed 27 April 2023
[5] Appointed 30 September 2022, resigned 27 April 2023
[6] Retired 1 November 2022

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

2023	Balance at the start of the year or commencement date	Acquired	Other movement	Balance at the end of the year or date of resignation
Directors				
Don Koch	-	-	-	-
Jon Denovan	-	-	-	-
Elizabeth Aris	10,000	-	-	10,000
Michelle Guthrie	-	-	-	-
Calvin Ng	7,335,747	85,892	(2,867,011)	4,554,628
Daniel Crennan	-	-	-	-
David Gration	-	-	-	-

2023	Balance at the start of the year or commencement date	Acquired through exercise of vested performance rights	Other movement	Balance at the end of the year or date of resignation
Executives				
Allan Savins	1,863,491	16,667	(325,208)	1,554,950
Andrew Kitchen	305,100	-	(274,590)	30,510
Dara Wettner	25,425	-	-	25,425
Andrew Bell	-	-	-	-
Amber Smith	232,716	-	-	232,716

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

During the reporting period the Group sub-leased office space from Finsure Finance And Insurance Pty Ltd, a related entity of Mr John Kolenda. Rental income paid during the period Mr Kolenda was a Director of BNK (30 September 2022 to 27 April 2023) totaled $42,000 (2022: $281,995). There was no balance receivable at 30 June 2023 (7 February 2022; $42,835). The comparable period of FY2022 was up to the date Mr Kolenda ceased to be a related party due to the sale of Finsure.

During the same period, the Group paid $28,380 to Finsure Finance And Insurance Pty Ltd in relation to Aggregation Sponsorship (30 June 2022: nil).

During the reporting period, loans totaling $2.7m were provided to Mr Allan Savins for the purpose of purchasing residential properties. These loans were assessed and granted under the same controls, procedures and applying the same terms and conditions as all other BNK funded loans.

9. Remuneration incentives approved subsequent to balance date

Subsequent to 30 June 2023, and at the date of signing, no incentives have been recommended by the Remuneration Committee for members of the Executive Leadership Team.

End of Remuneration Report

Signed in accordance with a Resolution of Directors

Don Koch - Chairman
Dated this 25th day of August 2023

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 2023 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
25 August 2023

STATEMENTS OF FINANCIAL POSITION
As at 30 June 2023

		Consolidated		Bank	
In thousands of AUD	**Note**	**2023**	**2022**	**2023**	**2022**
		$	**$**	**$**	**$**
ASSETS					
Cash and cash equivalents	4.1.1	92,573	143,280	90,510	139,627
Due from other financial institutions	4.2	54,620	102,528	54,620	102,528
Other financial assets	4.2	147,578	164,586	147,578	164,586
Loans and advances	3.1	1,357,521	990,066	1,356,819	990,506
Commissions and other receivables	4.4.1	2,860	5,573	6,914	7,259
Contract assets	4.4.3	16,759	21,032	-	-
Investment in subsidiaries	6.1.1	-	-	19,896	19,896
Property, plant and equipment	7.1	490	812	220	374
Goodwill and other intangible assets	7.2	7,389	7,407	289	306
Deferred tax assets/liabilities net	2.5.2	-	-	2,475	1,659
TOTAL ASSETS		**1,679,790**	**1,435,284**	**1,679,321**	**1,426,741**
LIABILITIES					
Deposits	4.3	1,252,260	964,589	1,252,260	964,589
Other financial liabilities	4.5	285,034	245,519	285,819	245,190
Commissions and other payables	4.4.2	6,770	7,059	11,694	4,057
Trail commission payable	4.4.3	5,930	7,453	-	-
Current tax liability		-	17,423	-	23,149
Provisions	7.3	1,176	1,037	529	444
Deferred tax assets/liabilities net	2.5.2	437	1,828	-	-
TOTAL LIABILITIES		**1,551,607**	**1,244,908**	**1,550,302**	**1,237,429**
NET ASSETS		**128,183**	**190,376**	**129,029**	**189,312**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS					
Contributed equity					
Issued capital, net of raising costs	5.2.2	100,329	118,943	100,329	118,943
Reserves		1,903	1,634	1,179	1,634
Retained earnings		25,951	69,799	27,521	68,735
TOTAL EQUITY		**128,183**	**190,376**	**129,029**	**189,312**

The accompanying notes form part of these financial statements

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 30 June 2023

CONTINUING OPERATIONS		Consolidated		Bank	
In thousands of AUD	**Note**	**2023 $**	**2022 $**	**2023 $**	**2022 $**
Interest revenue from banking activities	2.3	60,650	20,217	57,729	18,668
Interest expense from banking activities	2.3	(41,842)	(7,293)	(41,705)	(7,931)
Net interest income	2.3	18,808	12,924	16,024	10,737
Commission income	2.3	1,746	(2,112)	-	-
Commission expense	2.3	(5,458)	(2,696)	(1,660)	(1,080)
Net commission income/(expense)		(3,712)	(4,808)	(1,660)	(1,080)
Other income	2.3	3,913	3,306	1,671	1,966
Total net revenue		**19,009**	**11,422**	**16,035**	**11,623**
Operating expenses	2.4	(23,089)	(26,584)	(16,351)	(19,308)
Impairment of loans, advances and other receivables		(1,105)	(843)	(1,064)	(635)
Profit/(Loss) before income tax from continuing operations		**(5,185)**	**(16,005)**	**(1,380)**	**(8,321)**
Income tax (expense)/benefit	2.5.1	1,250	3,614	79	3,995
Profit/(Loss) from continuing operations		**(3,935)**	**(12,391)**	**(1,301)**	**(4,325)**
Discontinued operations					
Profit from discontinued operation, net of tax	2.2.1	-	72,178	-	79,925
Profit/(Loss) for the period attributable to equity holders of the parent		**(3,935)**	**59,787**	**(1,301)**	**75,600**
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss, net of income tax					
Total comprehensive income for the period		**(3,935)**	**59,787**	**(1,301)**	**75,600**
Earnings per share – continuing operations					
Basic earnings per share (cents)	5.3	(3.32)	(10.70)	-	-
Diluted earnings per share (cents)	5.3	(3.31)	(10.48)	-	-
Earnings per share – discontinued operations					
Basic earnings per share (cents)	5.3	-	62.31	-	-
Diluted earnings per share (cents)	5.3	-	61.02	-	-

The accompanying notes form part of these financial statements

STATEMENTS OF CHANGES IN EQUITY
For the year ended 30 June 2023

Attributable to equity holders	Note	Issued Capital	Equity Raising Costs	Treasury Shares	Liquidity Reserve	General Reserve for Credit Losses	Share-based Payments Reserve	Retained Earnings	Total Equity
		$	$	$	$	$	$	$	$
Balance at 1 July 2021		**120,035**	**(3,307)**	**(103)**	**-**	**446**	**891**	**10,012**	**127,974**
Profit for the period		-	-	-	-	-	-	59,787	59,787
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**	**59,787**	**59,787**
Transactions with owners of the Company									
Issue of share capital	5.2.2	2,240	-	-	-	-	(2,240)	-	-
Equity raising costs, net of tax	5.2.3	-	(25)	-	-	-	-	-	(25)
Cost of share-based payments	7.5.2	-	-	-	-	-	2,640	-	2,640
Balance at 30 June 2022		**122,275**	**(3,332)**	**(103)**	**-**	**446**	**1,291**	**69,799**	**190,376**
Balance at 1 July 2022		**122,275**	**(3,332)**	**(103)**	**-**	**446**	**1,291**	**69,799**	**190,376**
(Loss) for the period		-	-	-	-	-	-	(3,935)	(3,935)
Total comprehensive income								(3,935)	(3,935)
Transactions with owners of the Company									
Dividends	5.4	-	-	-	-	-	-	(40,359)	(40,359)
Capital return	5.2.3	(18,995)	-	-	-	-	-	-	(18,995)
Reclassification of reserve		-	-	-	-	(446)	-	446	-
Issue of share capital	5.2.2	384	-	-	-	-	-	-	384
Equity raising costs, net of tax	5.2.3	-	(3)	-	-	-	-	-	(3)
Cost of share-based payments	7.5.2	-	-	-	-	-	(10)	-	(10)
SPV reserve movement		-	-	-	725	-	-	-	725
Balance at 30 June 2023		**103,664**	**(3,335)**	**(103)**	**725**	**-**	**1,281**	**25,951**	**128,183**

The accompanying notes form part of these financial statements

STATEMENTS OF CHANGES IN EQUITY
For the year ended 30 June 2023

In thousands of AUD **Bank**

Attributable to equity holders	Note	Issued Capital	Equity Raising Costs	Treasury Shares	General Reserve for Credit Losses	Share-based Payments Reserve	Retained Earnings	Total Equity
		$	$	$	$	$	$	$
Balance at 1 July 2021		**120,035**	**(3,307)**	**(103)**	**446**	**891**	**(6,864)**	**111,098**
Profit for the period							75,600	75,600
Total comprehensive income							**75,600**	**75,600**
Transactions with owners of the Company								
Issue of share capital	5.2.3	2,240	-	-	-	(2,240)	-	-
Equity raising costs, net of tax	5.2.4	-	(25)	-	-	-	-	(25)
Cost of share-based payments	7.5.2	-	-	-	-	2,639	-	2,639
Balance at 30 June 2022		**122,275**	**(3,332)**	**(103)**	**446**	**1,291**	**68,736**	**189,312**
Balance at 1 July 2022		**122,275**	**(3,332)**	**(103)**	**446**	**1,291**	**68,736**	**189,312**
Profit for the period							(1,301)	(1,301)
Total comprehensive income							**(1,301)**	**(1,301)**
Transactions with owners of the Company								
Dividends	5.4	-	-	-	-	-	(40,359)	(40,359)
Capital return	5.2.3	(18,995)	-	-	-	-	-	(18,995)
Reclassification of reserve		-	-	-	(446)	-	446	-
Issue of share capital	5.2.2	384	-	-	-	-	-	384
Equity raising costs, net of tax	5.2.3	-	(3)	-	-	-	-	(3)
Cost of share-based payments	7.5.2	-	-	-	-	(10)	-	(10)
SPV reserve movement		-	-	-	-	-	-	-
Balance at 30 June 2023		**103,664**	**(3,335)**	**(103)**	**-**	**1,281**	**27,522**	**129,029**

The accompanying notes form part of these financial statements

STATEMENTS OF CASH FLOWS
For the year ended 30 June 2023

		Consolidated		Bank	
	Note	2023	2022	2023	2022
In thousands of AUD		$	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		60,650	21,786	60,296	20,236
Fees and commissions received		14,229	359,607	2,867	785
Interest and other costs of finance paid		(41,816)	(7,268)	(41,705)	(7,932)
Other income received		4	19	4	-
Payments to suppliers and employees		(31,719)	(386,820)	(19,833)	(22,170)
Net increase in loans, advances and other receivables		(367,261)	(444,379)[1]	(367,261)	(447,626)
Net (decrease)/increase in deposits and other borrowings		287,671	328,942	287,671	328,942
Net (payments)/receipts for financial securities		64,916	(109,810)	64,916	(110,147)
Income taxes paid		(17,565)	-	(17,565)	-
Net cash provided by/(used in) operating activities	4.1.2	(30,891)	(237,923)	(30,610)	(237,912)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of subsidiaries		-	152,225	-	152,225
Proceeds from sale of investments		-	-	-	356
Payments for property, plant and equipment		-	(3)	-	(3)
Net cash from/(used in) investing activities		-	152,222	-	152,578
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from the issue of capital	5.2.2	375	-	375	-
Payments for equity raising costs	5.2.3	(4)	(36)	(6)	(36)
Payment of capital	5.2.3	(18,995)	-	(18,995)	-
Payment of dividends	5.4	(40,359)	-	(40,359)	-
Payments for lease liabilities		(322)	(2,502)	(151)	(138)
Proceeds of borrowings		39,489	184,234	40,629	183,544
Net (used in)/cash from financing activities		(19,816)	181,696	(18,507)	183,370
Net increase/(decrease) in cash held		(50,707)	95,995	(49,117)	98,036
Cash and cash equivalents at beginning of the year		143,280[1]	47,285	139,627	41,591
Total cash and cash equivalents		**92,573**	**143,280**	**90,510**	**139,627**

[1]Restatement of FY22 for Bullion Bank Acct movement $3.2m (Restricted Cash). See note 4.1.1

The accompanying notes form part of these financial statements

1. BASIS OF PREPARATION

1.1 Reporting entity

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

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

The financial report for BNK and its controlled entities (the Group) for the year ended 30 June 2023 was authorised for issue in accordance with a resolution of the directors on 25th August 2023.

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, except where stated.

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

The Company presents its statement of financial position in order of liquidity.

(b) Statement of compliance

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

1.3 Significant accounting judgements and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and adjusted as required. Revisions to accounting estimates are recognised in the period on which the estimate is revised and in any future periods affected. Specific adjustments to inputs and assumptions are explained in the relevant notes to this financial report as referenced below:

	Reference
Identification and measurement for impairment of loans and receivables	3.2
Net present value of future trail commissions receivable and payable	4.4
Impairment of goodwill and other intangibles	7.2

2. FINANCIAL PERFORMANCE

2.1 Operating segments

AASB 8 requires operating segments to be identified on the basis of internal information provided to the chief decision maker, the Board of Directors, in relation to the Group's business activities.
Prior to the sale of Finsure in February 2022, the Group operated under two reporting segments, Aggregation and Bank. As a result of the sale, the Group now operates under a single segment of Bank for which information is provided regularly to the Board of Directors.
All elements within this Financial Report to June 2023 relate to the single reporting segment of Bank (continuing operations).

2. FINANCIAL PERFORMANCE (continued)

2.1 Operating segments (continued)

Banking

The Group's banking business refers to the provision of banking products and services such as loans and deposits under the BNK, Goldfields Money and Better Choice brands.

Loans are distributed through the Better Choice business, via online applications with the accredited broker network, and may be funded by deposits, securitisation vehicles or third party funders. Existing securitised funding warehouses remain in place with Goldman Sachs ($500m) and Bendigo & Adelaide Bank ($250m).
Introducer broker channels receive commissions for loan origination and ongoing trail. Better Choice Wholesale earns and pays commissions on the loan books from the white label funders.
Deposits are originated under the Goldfields Money / BNK brand directly and through third party deposit brokers. The Bank earns net interest income and service fees from providing a range of services to its retail and small business customers.

In thousands of AUD	30 June 2023 Banking[2]	30 June 2023 Aggregation[1]	30 June 2023 Total	30 June 2022 Banking[2]	30 June 2022 Aggregation[1]	30 June 2022 Total
	$	$	$	$	$	$
Revenue						
Interest income	60,650	-	60,650	20,217	2	20,219
Total interest income	60,650	-	60,650	20,217	2	20,219
Commission and non-interest income	5,659	-	5,659	1,194	266,223	267,417
Total commission and non-interest income	5,659	-	5,659	1,194	266,223	267,417
Total segment revenue	66,309	-	66,309	21,411	266,225	287,636
Interest expense	41,763	-	41,763	7,214	-	7,214
Other	79	-	79	79	58	137
Total interest expense	41,842	-	41,842	7,293	58	7,351
Commission expense	5,458	-	5,458	2,696	154,677	157,059
Total commission expense	5,458	-	5,458	2,696	154,677	157,059
Segment profit/(loss) before tax	(5,185)	-	(5,185)	(16,005)[2]	7,543[3]	(8,462)[4]
Material non-cash expenses:						
Depreciation and amortisation	340	-	340	380	778	1,158
Share-based payments	-	-	-	2,639	-	2,639
Segment assets	1,687,171	-	1,687,171	1,435,284	-	1,435,284
Segment liabilities	1,558,988	-	1,558,988	1,244,908	-	1,244,908

[1] Aggregation Segment discontinued 7 February 2022
[2] Banking segment equates to consolidated position
[3] Note 2.2.1 for discontinued operations segment profit before tax
[4] Before net tax benefit $1,168k and gain on disposal after tax $67,081k

2. FINANCIAL PERFORMANCE (CONTINUED)

2.2 Discontinued Operation

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

There have been no operations discontinued during the reporting period to 30 June 2023.

2.2.1 Results of discontinued operation

In thousands of AUD	2022 $
Revenue	266,225
External revenue	266,225
Expenses	258,682
External expenses	258,682
Results from discontinued operating activities	**7,543**
Income tax expense	2,446
Results from discontinued operating activities, net of tax	5,097
Gain on sale of discontinued operation	88,089
Income tax on gain on sale of discontinued operation	(21,008)
Profit from discontinued operations, net of tax	**72,178**
Basic earnings per share	62.31
Diluted earnings per share	61.02

2.2.2 Assets and liabilities of discontinued operations

In thousands of AUD	2022 $
Assets	
Cash and cash equivalents	8,309
Commission receivables	3,317
Contract assets	571,978
Property, plant and equipment	1,037
Goodwill and other intangible assets	5,437
Deferred Tax Asset	131,734
	721,812
Liabilities	
Commission and other payables	4,207
Trail Commission payable	535,509
Provisions	719
Deferred tax liabilities	141,597
	682,032
Net assets from discontinued operating activities	**39,780**

2. FINANCIAL PERFORMANCE (CONTINUED)

2.2.3 Cash flows from / (used in) discontinued operation

In thousands of AUD	**2022** **$**
Net cash from/(used in) operating activities	5,611
Net cash from/(used in) investing activities	215
Provisions	(203)
Net cash from/(used in) financing activities	(1,356)
Net cash flows for the period	4,267

2. FINANCIAL PERFORMANCE (CONTINUED)

2.3 Income

Net interest income

In thousands of AUD	Consolidated 2023 $	Consolidated 2022 $	Bank 2023 $	Bank 2022 $
Interest revenue				
Loans and advances	51,358	19,399	48,524	17,851
From other financial institutions	9,292	818	9,205	817
Total interest income	60,650	20,217	57,729	18,668
Interest expense				
Deposits	28,816	3,868	28,816	3,868
Lease liabilities	37	53	17	24
Securitisation liabilities	11,018	2,233	10,914	2,900
Subordinated debt	1,929	1,113	1,932	1,113
Other	42	26	26	26
Total interest expense	41,842	7,293	41,705	7,931
Net interest income	18,808	12,924	16,024	10,737
Weighted average interest rate - loans and advances	5.88%	3.15%	5.88%	3.15%
Weighted average interest rate - deposits	3.59%	0.95%	3.59%	0.95%
Spread	2.29%	2.20%	2.29%	2.20%

Net commission income

	Note	Consolidated 2023 $	Consolidated 2022 $	Bank 2023 $	Bank 2022 $
Commission income					
Upfront commission		937	2,657	-	-
Trail commission income	2.3.1	809	(4,769)	-	-
Total commission income		1,746	(2,112)		
Commission expense					
Upfront commission expense		2,783	3,218	-	-
Trail commission expense	2.3.1	2,675	(522)	1,660	1,080
Total commission expense		5,458	2,696	1,660	1,080
Net commission income/(expense)		(3,712)	(4,808)	(1,660)	(1,080)

Other income

	Consolidated 2023 $	Consolidated 2022 $	Bank 2023 $	Bank 2022 $
Service fees and other residual income	1,792	977	341	492
Lending fees	1,224	817	433	(37)
Transaction fees	893	1,156	893	1,155
Dividends received	-	337	-	337
Other	4	19	4	19
Total other income	3,913	3,306	1,671	1,966

2. FINANCIAL PERFORMANCE (CONTINUED)

2.3 Income (continued)

Accounting policy - recognition and measurement

Interest income and expense

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

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

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

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

Commission income and expense

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 note on Interest income and expense).

Other fees 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.

Other income, service fees and residual income

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

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

Commission revenues

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

Origination commissions

Origination commissions are recognised at the point of the loans being settled, net of any offset balance (drawdown). Commissions' clawbacks are recognised upon receipt where loans have been discharged within contractual timeframes.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.3 Income (continued)

Accounting policy - recognition and measurement (continued)

Trailing commissions
The Group receives trailing commissions from lenders on settled loans over the life of the loans based on the individual loan balance outstanding. Contractually, where loans fall into delinquency, trailing commissions may be reduced or held for such a period until loans are repaired to non-delinquent status. The Group also makes trailing commission payments to authorised mortgage originators (brokers) based on the individual loan balance outstanding.

On initial recognition, the Group recognises a contract asset under AASB 15 which represents the Group's estimate of the variable consideration to be received from lenders on the settled loans. The Group used the expected value method of estimating the variable consideration which requires significant judgment. In estimating the variable consideration the Group assesses observed historical data in determining the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. In addition, a corresponding expense and payable to the relevant brokers is also recognised, initially measured at fair value being the net present value of expected future trailing commission payable to relevant brokers.

The value of trail commission receivable from lenders and the corresponding payable to brokers is determined by using a discounted cash flow valuation to determine the expected value. These calculations require the use of assumptions which are determined using a variety of inputs including analysis of historical information. Key assumptions underlying the calculation include the average loan life, discount rate and percentage paid to brokers. Refer to 4.4.3.

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.

2.3.1 Trail commission

		Consolidated		Bank
In thousands of AUD	**2023**	**2022**	**2023**	**2022**
	$	**$**	**$**	**$**
Trail commission receipts (net GST)	520	125	-	-
Change in net present value of future trail commissions receivable	289	(4,894)	-	-
Trail commission income	809	(4,769)	-	-
Commission expense				
Trail commission paid (net GST)	713	432	1,660	1,080
Change in net present value of future trail commission payable	1,962	(954)	-	-
Trail commission expense	2,675	(522)	1,660	1,080

Under AASB 15, Revenue from Contracts with Customers, trail commissions received and paid during the period are applied against the contract asset/liability held by the Group.
During the reporting period FY23, the Group received trail commissions (net of GST) of $5.1m and paid trail commissions (net of GST) of $4.2m.
During the comparable period FY22, the Group received trail commissions (net of GST) of $6.7m and paid trail commissions (net of GST) of $4.2m.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.4 Operating Expenses

In thousands of AUD	Consolidated 2023 $	Consolidated 2022 $	Bank 2023 $	Bank 2022 $
Depreciation and amortisation	340	380	172	185
Information technology	2,066	1,673	1,464	1,185
Cloud based software development	142	1,053	135	1,053
Banking services delivery	411	423	410	423
Securitisation operating expenses	137	251	-	-
Employee benefits	14,189	14,311	9,307	9,243
Professional services	3,451	5,877	3,370	5,810
Marketing	280	198	130	92
Occupancy	283	265	128	123
Other administration expenses	1,790	2,153	1,235	1,194
Total operating expenses	23,089	26,584	16,351	19,308

Accounting policy - recognition and measurement

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

2.5 Income tax

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

In thousands of AUD	Consolidated 2023 $	Consolidated 2022 $	Bank 2023 $	Bank 2022 $
Recognised in profit or loss				
Current tax	-	(6,029)	-	(7,304)
Deferred tax	(1,468)	2,415	(331)	3,309
Adjustments in respect of previous income tax	218	-	252	-
Income tax expense/(benefit) on continuing operations recognised in Profit or Loss	(1,250)	(3,614)	(79)	(3,995)
Recognised in OCI				
Financial instruments at fair value through OCI	-	-	-	-
Equity raising costs	1	11	1	11
Income tax expense/(benefit) on continuing operations recognised in Other Comprehensive Income	1	11	1	11
Tax reconciliation				
Profit/(Loss) before tax	(5,185)	(16,005)	(1,380)	(8,321)
Prima facie income tax expense/(benefit) on profit before income tax at 30% (2022:30%)	(1,555)	(4,801)	(414)	(2,496)
Adjust for tax effect of:				
Non-assessable income	-	-	-	(2,631)
Non-deductible expenses	87	1,335	84	1,132
Prior period adjustments	218	(148)	251	-
Income tax expense/(benefit) on continuing operations recognised in Profit or Loss	(1,250)	(3,614)	(79)	(3,995)

2. FINANCIAL PERFORMANCE (CONTINUED)

2.5 Income tax (continued)

2.5.2 Deferred tax assets and liabilities

In thousands of AUD	Consolidated 2023 $	Consolidated 2022 $	Bank 2023 $	Bank 2022 $
Deferred tax assets comprise temporary differences attributable to:				
Provision for doubtful debts	916	584	841	522
Accrued expenses	1,048	814	889	670
Provisions	353	311	159	133
Equity raising and s.40-880 costs	181	450	181	450
Lease liabilities	163	259	76	121
Net present value of trail commission payable	1,779	2,235	-	-
Cloud based software development costs	1,675	1,757	1,501	1,561
Other	-	2	-	-
Carry forward losses and R&D offsets	1,266	86	1,266	86
Total deferred tax assets	7,381	6,498	4,913	3,543
Deferred tax liabilities comprise temporary differences attributable to:				
Prepayments and other assets	-	5	-	5
Intangible assets	138	228	60	100
Net present value of trail commission receivable	5,027	6,309	-	-
Deferred commission expense	2,653	1,779	2,368	1,779
Property, plant and equipment	-	5	-	-
Total deferred tax liabilities	7,818	8,326	2,428	1,884
Set-off	(7,381)	(6,498)	(4,913)	(3,543)
Net deferred tax asset/(liability)	(437)	(1,828)	2,485	1,659

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 on continuing operations only except to the extent that it relates to items recognised in other comprehensive income.

Income tax expense (revenue) relating to discontinued operations in FY22 is excluded from above table and disclosed in note 2.2.

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 the Group expects to recover or settle the carrying amount of the related asset or liability.

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

2. FINANCIAL PERFORMANCE (CONTINUED)

2.5 Income tax (continued)

2.5.2 Deferred tax assets and liabilities (continued)

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

3. LOANS AND ADVANCES

3.1. Loans and advances

In thousands of AUD	Consolidated 2023 $	Consolidated 2022 $	Bank 2023 $	Bank 2022 $
Residential loans	1,295,591	972,090	1,295,591	972,090
Commercial loans	54,588	13,166	54,588	13,166
Personal loans	95	327	95	327
Overdrafts	1,386	452	1,386	452
	1,351,660	986,035	1,351,660	986,035
Add: Unamortised broker commissions	7,194	5,895	6,243	6,127
Unamortised premium	1,636	-	1,636	-
Gross loans and advances	1,360,490	991,930	1,359,539	992,162
Provision for credit losses – refer note 3.2	(2,969)	(1,864)	(2,720)	(1,656)
Loans and advances net of provisions	1,357,521	990,066	1,356,819	990,506
Maturity analysis – gross loans and advances				
Overdrafts	1,386	452	1,386	452
Not longer than 1 year	165	138	165	138
Longer than 1 and not longer than 5 years	5,525	3,152	5,525	3,152
Longer than 5 years	1,353,414	988,188	1,352,463	988,420
	1,360,490	991,930	1,359,539	992,162

Gross loans and advances stated above includes securitisation warehouse loans recognised for accounting purposes. Refer to note 4.5 for further information of the warehouse facility.

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

All loans and advances greater than 30 days in arrears are reviewed individually and assessed for recoverability with reference to the valuation of collateral held. Expected credit loss provisions are recognised as set out in note 3.2.

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 2023 $	2022 $	Bank 2023 $	2022 $
Expected credit loss provision	2,969	1,864	2,720	1,656
Total provisions for credit losses	2,969	1,864	2,720	1,656
Expected credit loss provision				
Opening balance	1,864	1,025	1,656	1,025
Specific debt provided for during the year	124	-	124	-
Bad debts provided for during the year	981	839	940	631
Bad debts written off during the year	-	-	-	-
Closing balance	2,969	1,864	2,720	1,656

Refer to note 5.1.4 for further information on the expected credit loss provisions recognised at balance date.

Accounting policy - Recognition and measurement

Changes in Estimate
Under AASB 108, Changes in accounting estimates and errors, BNK has changed the model used to determine its Expected Credit Loss (ECL) provision for the reporting period to 30 June 2023.
The Group has replaced its previous in-house designed ECL model, with an outsourced third party Probability for default (PD) x Loss given default (LGD) model with both assumptions being developed using proxy data that management considers appropriate to apply to BNK's current portfolio.

The new model is aligned to regulatory A-IRB (Basel Advanced Internal Ratings Based) risk estimates and AASB-9 credit provisioning frameworks.

In this reporting period, BNK's change in the ECL is driven by the growth in the loan portfolio. The Group will continue to review outcomes with the model being refined as the loan portfolio matures.

Financial assets

Expected credit loss provision

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

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

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

If 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 in determining to reclassify it from Stage 1 to Stage 2 or 3. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. During the period the level of loan restructures completed were not considered to have a material effect on the provision.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

3. LOANS AND ADVANCES

3.2 Provision for credit losses (continued)

The Group considers a financial asset to be in default when:

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

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

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).

ECL for exposures in Stage 1 is calculated for each facility and for each of the three economic scenarios (described within the scenarios and sensitivity analysis below) by multiplying the 12-month point in time PD, EAD and LGD with the corresponding scenario economic assumptions applied in the models. The final Stage 1 ECL is a probability weighted average of the three scenario-based estimates.
Similarly, lifetime ECL is calculated at a facility-level for each scenario and combined into a probability weighted average of the three scenario-based estimates, however the point in time PD for stage 2 is calculated over a 5-year horizon to reflect an approximate remaining lifetime estimate. For stage 3 PD is set to 100% as the facilities are already in default."

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on industry benchmarks of recovery rates of claims against defaulted counterparties. The model applies industry risk weightings based upon key variables including collateral, LMI, ownership type, number of payments ahead, counterparty industry and recovery costs. For loans secured by residential properties, LVR ratios are a key parameter in determining LGD. These are used to determine an expected LGD for the three different economic scenarios described below.

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.

PD represents the likelihood of a loan experiencing a default (90 days or more in arrears) in the future. Utilising the risk framework within the model, probabilities are applied to PD Segments based upon arrears history and LVRs of each loan. This is then applied to the exposure amount as at 30 June 2023.

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

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

3. LOANS AND ADVANCES

3.2 Provision for credit losses (continued)

Management overlay
In previous reporting periods, BNK identified customers with high Debt to Income ratios (being greater than 6) as being more exposed to mortgage stress and therefore have a higher probability of default. BNK had provisioned an additional 5bps overlay on this cohort of balances to account for any future losses. At the 30 June, this overlay has been removed as no behaviour of this nature has been identified.

Concentration Risk Overlay
The concentration risk overlay is based on a 100% loss of an average top-10 exposure occurring in the severe downturn scenario with a sliding scale of probabilities based on weighting towards downturn scenarios. Management believes this overlay represents the increased risk of a loss based on each scenario whilst the portfolio grows. For BNK that equates to $443,367 or 3.9bps of total portfolio (excluding the BEN Warehouse) for the period to 30 June 2023.

Data and Model Risk Overlay
With the change to a new model for the current reporting period, a data and model risk overlay has been applied on top of the model outcomes, whilst the model is being refined. This overlay addresses the proxy data being used from portfolio's of a similar nature and with similar credit risk/lending criteria to BNK. This isn't considered in the model therefore the risk is addressed by an overlay. For BNK that equates to $500,000 or 4.4bps of total portfolio (excluding the BEN Warehouse) for the period to 30 June 2023.

Forward looking information
Forward looking information is incorporated into Expected Credit Loss estimates via underlying cycle-dependent or "point in time" PD and LGD models, which vary, based on projected property price changes and state of the cycle indicator. Forecast PD and LGD are estimated under three economic scenarios representing a cycle average, a moderate downturn and a severe downturn. Likelihood of each scenario going forward is captured by probability weighting towards each scenario, which are set based on judgement.

Scenarios and Sensitivity Analysis

The key drivers for sensitivity analysis relate to the change in property prices and the impact of future economic events occurring.

Economic condition	**Change in Property Price**	**Event Frequency (1-in-x year)**
Long Run Average	0%	-
Moderate Downturn	-10%	1 in 15
Severe Downturn	-30%	1 in 50

By applying different weightings to each of the above three economic conditions the model provides sensitivity outcomes comparable to the actual model outcomes derived for the Group in the reporting period to 30th June 2023.

Within each of these scenario's, LGD and PD rates are flexed according to benchmarking data. The combination of each weighting matrix results in the following outcomes;

In thousands of AUD	**Long Run**	**Moderate Downturn**	**Severe Downturn**	**Concentration overlay**	**Model overlay**	**Model Outcome**	**Variance to actual**
Model Used	60%	30%	10%	443	500	2,597	-
Scenario 1	80%	20%	-	222	500	1,600	(997)
Scenario 2	70%	20%	10%	333	500	2,353	(244)
Scenario 3	50%	35%	15%	554	500	3,096	499

NOTES TO THE FINANCIAL REPORT

3. LOANS AND ADVANCES

3.2 Provision for credit losses (continued)

Movements of expected credit loss provision

In thousands of AUD	Consolidated									
	Stage 1		**Stage 2**		**Stage 3**		**Management overlay**		**Total**	
	Gross exposure	**Provision**	**Gross exposure**	**Provision**	**Gross exposure**	**Provision**	**Gross exposure**	**Provision**	**Gross exposure**	**Provision**
Opening balance – 1 July 2021	536,747	825	2,893	95	1,324	105	-	-	540,964	1,025
Transfers to/(from)										
Stage 1	-	-	-	-	-	-	-	-	-	-
Stage 2	-	-	307	20	-	-	88,924[1]	45	89,231	65
Stage 3	-	-	-	-	86	71	-	-	86	71
Movement in year	361,649	703	-	-	-	-	-	-	361,649	703
Bad debts written off	-	-	-	-	-	-	-	-	-	-
Closing balance – 30 June 2022	898,396	1,528	3,200	115	1,410	176	88,924	45	991,930	1,864
Opening balance – 1 July 2022	898,396	1,528	3,200	115	1,410	176	88,924	45	991,930	1,864
Transfers to/(from)										
Stage 1	-	-	-	-	-	-	-	-	-	-
Stage 2	88,924	45	-	-	-	-	(88,924)	(45)	-	-
Stage 3	-	-	-	-	-	-	-	-	-	-
Specific Provision	-	-	644	124	-	-	-	-	644	124
Movement in year	364,549	25	3,267	77	99	(64)	-	943[2]	722,035	1,976
Bad debts written off	-	-	-	-	-	-	-	-	-	-
Closing balance – 30 June 2023	1,351,869	1,598	7,111	316	1,509	112	-	943	1,360,489	2,969

[1] Management overlay on exposures with a DTI >6

[2] Management overlay relates to Concentration Risk and Data Model Risk introduced in the current reporting period.

3. LOANS AND ADVANCES

3.2 Provision for credit losses (continued)

Movement of expected credit loss provision

In thousands of AUD	Bank									
	Stage 1		**Stage 2**		**Stage 3**		**Management overlay**		**Total**	
	Gross exposure	**Provision**	**Gross exposure**	**Provision**	**Gross exposure**	**Provision**	**Gross exposure**	**Provision**	**Gross exposure**	**Provision**
Opening balance – 1 July 2021	538,337	825	2,893	95	1,324	105	-	-	542,554	1,025
Transfers to/(from)										
Stage 1	-	-	-	-	-	-	-	-	-	-
Stage 2	-	-	307	20	-	-	88,924[1]	45	89,231	65
Stage 3	-	-	-	-	86	71	-	-	86	71
Movement in year	152,234	495	-	-	-	-	-	-	152,234	495
Bad debts written off	-	-	-	-	-	-	-	-	-	-
Closing balance – 30 June 2022	690,571	1,320	3,200	115	1,410	176	88,924	45	784,105	1,656
Opening balance – 1 July 2022	690,571	1,320	3,200	115	1,410	176	88,924	45	784,105	1,656
Transfers to/(from)										
Stage 1	-	-	-	-	-	-	-	-	-	-
Stage 2	88,924	45	-	-	-	-	(88,924)	(45)	-	-
Stage 3	-	-	-	-	-	-	-	-	-	-
Specific Provision	-	-	644	124	-	-	-	-	644	124
Movement in year	323,648	(15)	3,267	77	99	(64)	-	943[2]	327,015	940
Bad debts written off	-	-	-	-	-	-	-	-	-	-
Closing balance – 30 June 2023	1,103,143	1,350	7,111	316	1,509	112	-	943	1,111,764	2,720

[1] Management overlay on exposures with a DTI >6
[2] Management overlay relates to Concentration Risk and Model Risk introduced in the current reporting period.

4. LIQUIDITY AND FUNDING

4.1.1 Cash and cash equivalents

In thousands of AUD	Consolidated 2023 $	2022 $	Bank 2023 $	2022 $
Cash at bank and on hand	90,707	140,027	90,510	139,627
Cash at bank - restricted	1,866	3,253	-	-
Total cash and cash equivalents	92,573	143,280	90,510	139,627

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

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 2023 $	2022 $	Bank 2023 $	2022 $
Operating profit/(loss) after income tax	(3,935)	59,787	(1,301)	75,600
Non-cash items				
Depreciation and amortisation	340	380	172	185
Change in fair value of NPV asset	4,273	(462,005)	-	-
Change in fair value of NPV liability	(1,523)	436,464	-	-
Impairment of financial assets	1,105	843	1,064	635
Leave provisions	(139)	(641)	85	144
Equity settled share-based payment transactions	-	2,639	-	2,639
Gain on sale of discontinued operation, net of tax	-	(72,178)	-	(79,925)
Movement in assets and liabilities				
Loans and receivables	(367,261)	(444,378)	(367,261)	(447,626)
Investments	64,916	(109,810)	64,916	(110,147)
Deposits	287,671	328,942	287,671	328,942
Other assets	2,509	2,107	349	2,555
Deferred tax assets	(883)	(6,498)	(1,370)	(1,422)
Deferred tax liabilities	(508)	(5,983)	544	1,884
Current tax payable	(17,424)	17,424	(23,150)	(7,121)
Payables	(171)	14,343	7,756	(4,111)
Provisions	139	641	(85)	(144)
Net cash flow from operating activities	**(30,891)**	**(237,923)**	**(30,610)**	**(237,912)**

4. LIQUIDITY AND FUNDING

4.2 Financial assets

In thousands of AUD	Consolidated 2023 $	2022 $	Bank 2023 $	2022 $
Due from other financial institutions at amortised cost	54,620	102,528	54,620	102,528
Investment securities at amortised cost (a)	147,578	164,586	147,578	164,586
	202,198	267,114	202,198	267,114
Maturity analysis				
Due from other financial institutions				
- Not longer than 3 months	37,000	55,046	37,000	55,046
- 3 months to 1 year	10,000	39,862	10,000	39,862
- 1 year to 5 years	7,620	7,620	7,620	7,620
	54,620	102,528	54,620	102,528
Investment securities				
- Not longer than 3 months	39,380	51,443	39,380	51,443
- 3 months to 1 year	65,075	54,758	65,075	54,758
- 1 year to 5 years	38,067	36,312	38,067	36,312
- More than 5 years	5,056	22,073	5,056	22,073
	147,578	164,586	147,578	164,586

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

Accounting policy - Recognition and measurement

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through profit or loss (FVTPL) or fair value 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 gives 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, a gain or loss is recognised based on 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.

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. The cumulative gain/loss recognised in OCI is transferred from OCI to retained earnings. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

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

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

4.3 Deposits

	Consolidated		Bank	
In thousands of AUD	**2023**	**2022**	**2023**	**2022**
	$	**$**	**$**	**$**
Call deposits	593,602	690,494	593,602	690,494
Term deposits	658,658	274,095	658,658	274,095
	1,252,260	964,589	1,252,260	964,589
Maturity analysis				
- At call	593,602	690,495	593,602	690,495
- Not longer than 3 months	262,573	143,146	262,573	143,146
- Longer than 3 months but less than 12 months	377,708	126,741	377,708	126,741
- Longer than 12 months but less than 5 years	18,377	4,207	18,377	4,207
	1,252,260	964,589	1,252,260	964,589

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

4.4 Receivables and payables

4.4.1 Commission and other receivables

	Consolidated		Bank	
In thousands of AUD	**2023**	**2022**	**2023**	**2022**
	$	**$**	**$**	**$**
Accrued commission income	326	530	-	-
Prepayments	1,684	1,230	4,023	3,432
Other debtors	934	3,897	2,976	3,911
Less provision for impairment	(84)	(84)	(84)	(84)
Total commissions and other receivables	2,860	5,573	6,914	7,259

4. LIQUIDITY AND FUNDING

4.4 Receivables and payables (continued)

4.4.2 Commissions and other payables

In thousands of AUD	Consolidated 2023 $	2022 $	Bank 2023 $	2022 $
Accrued commission payable	138	262	-	-
Lease liabilities - refer to note 7.4	544	866	254	405
Trade creditors and accrued expenses	6,088	5,931	11,440	3,652
Total commissions and other payables	6,770	7,059	11,694	4,057

4.4.3 Contract assets and trail commission payable

In thousands of AUD	Consolidated 2023 $	2022 $	Bank 2023 $	2022 $
Contract assets				
Net present value of future trail commission receivable	16,759	21,032	-	-
Trail commission payable				
Net present value of future trail commission payable	5,930	7,453	-	-

Accounting policy - Recognition and measurement
The Group receives trailing commissions from lenders on settled loans over the life of the loans based on the individual loan balance outstanding. Contractually, where loans fall into delinquency, trailing commissions may be reduced or held for such a period until loans are repaired to non-delinquent status. The Group also makes trailing commission payments to authorised mortgage originators (brokers) based on the individual loan balance outstanding.

On initial recognition, the Group recognises a contract asset under AASB 15 which represents the Group's estimate of the variable consideration to be received from lenders on the settled loans. The Group used the expected value method of estimating the variable consideration which requires significant judgment. In addition, a corresponding expense and payable to the relevant brokers is also recognised, initially measured at fair value being the net present value of expected future trailing commission payable to relevant brokers.

The value of trail commission receivable from lenders and the corresponding payable to brokers is determined by using a discounted cash flow valuation to determine the expected value. These calculations require the use of assumptions which are determined using a variety of inputs including analysis of historical information. Key assumptions underlying the calculation include the average loan life, discount rate and percentage paid to brokers.

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

	2023	**2022**
Discount rate per annum	Between 1.5% and 6.5%	Between 1.5% and 6.5%
Percentage paid to brokers	Between 5% and 93%	Between 5% and 93%
Weighted average life – Total portfolio	6.7 years	5.6 years

Liabilities for trade creditors and other amounts are non-interest bearing and carried at amortised cost, which is the fair value of the consideration to be paid in the future for goods and services received. The terms and conditions for creditors and other liabilities are payable between 7 and 30 days.

4. LIQUIDITY AND FUNDING

4.5 Other financial liabilities

In thousands of AUD	Consolidated 2023 $	2022 $	Bank 2023 $	2022 $
Term funding facility - initial funding	13,751	13,751	13,751	13,751
Term funding facility – accrued interest	73	47	73	47
Securitisation liabilities - loans	-	-	248,726	207,826
Securitisation liabilities - notes	247,940	208,155	-	-
Subordinated debt	23,270	23,567	23,270	23,567
Total borrowings	285,034	245,519	285,819	245,190

Accounting policy - Recognition and measurement
All borrowings are initially recognised at cost, being the fair value of the consideration received net of any issue costs associated with the borrowings. Subsequent to initial measurement, they are measured at amortised cost using the effective interest rate method.

Term Funding Facility

During FY21, the Group accessed it's available funding allowance under the RBA's Term Funding Facility (TFF). The Group's drawdown comprises two tranches repayable as follows:

- $8.0 million fixed for three years at 0.25% repayable August 2023
- $5.7 million fixed for three years at 0.10% repayable October 2023

The Group has provided collateral in the form of RBA repo-eligible semi government securities for an equal value of the TFF. The Group's entitlement under the TFF was fully drawn at balance date.

Securitisation liabilities - loans

During 2021 the Group launched its first prime residential warehouse funding facility. This was facilitated through the establishment of the Bullion Warehouse No.1 Trust (the Trust). Loans originated and funded by the warehouse continue to be recognised by the Group with the rights to the cashflows from the loans equitably assigned to the Trust.

In thousands of AUD	Consolidated 2023 $	2022 $	Bank 2023 $	2022 $
Securitisation warehouse funding facilities - utilised	-	-	248,726	207,826
Securitisation warehouse funding facilities - unutilised	-	-	1,274	42,174
Securitisation warehouse funding approval limit	**250,000**	**250,000**	**250,000**	**250,000**

Subordinated debt

On 1 February 2021, the Group issued $8.75 million of subordinated floating rate notes. The notes are fully paid, unsecured with a maturity date of 1 February 2031, with an option to redeem the notes early on or after 1 February 2026, subject to APRA's approval.

On 12 May 2021, the Group issued a further tranche of subordinated floating rate notes totaling $1.25 million. The notes have the same terms and conditions as the first tranche with a maturity date of 12 May 2031 and an optional early redemption date of 1 August 2026, subject to APRA's approval.

On 30 September 2021, the Group issued a further tranche of subordinated floating rate notes totaling $14 million. The notes have the same terms and conditions as the first tranche with a maturity date of 30 September 2031 and an optional early redemption date of 30 September 2026, subject to APRA's approval.

4. LIQUIDITY AND FUNDING

4.5 Other financial liabilities (continued)

Securitisation liabilities - notes

In thousands of AUD ***30 June 2023***	**Margin range above BBSW %**	**Accrued Interest $**	**Principal Notes $**	**Total $**
Class A Notes	1.10-1.30	373	230,000	230,373
Class B Notes	8.00–10.00	26	7,500	7,526
Class C1 Notes	10.00	41	10,000	10,041
Securitisation liabilities –notes totals		**440**	**247,500**	**247,940**

In thousands of AUD ***30 June 2022***	**Margin range above BBSW %**	**Accrued Interest $**	**Principal Notes $**	**Total $**
Class A Notes	1.10-1.30	126	193,190	193,316
Class B Notes	8.00–10.00	15	6,370	6,385
Class C1 Notes	10.00	24	8,430	8,454
Securitisation liabilities –notes totals		**165**	**207,990**	**208,155**

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.1.1 Introduction and overview

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

Risk management framework

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

Risk management roles and responsibilities

Board of Directors

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

Board Risk & Compliance Committee

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

Chief Executive Officers & Executive Management

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

Chief Risk Officer

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

Internal Audit

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

Asset & Liability Committee (ALCO)

The management ALCO meets regularly to review the Group's interest rate risk, market risk, liquidity, credit quality and capital settings. The Committee monitors trends in the economy, reports risk metrics against Board defined triggers and forecasts movements in balance sheet positions to minimise risk and maximise financial outcomes.

Non-Financial Risk Committee (NFR)

The NFR assists the Board Risk & Compliance Committee in overseeing the implementation of BNK's risk management and compliance frameworks, focusing particularly on non-financial risks. The Committee monitors the appropriateness, adequacy and effectiveness of BNK's:

- Risk Management Strategy ("RMS") in managing the enterprise-wide risks it faces in achieving its strategic and business objectives; and
- Compliance framework to ensure compliance obligations are met at all times.

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.1 Introduction and overview (continued)

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.

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 Risk & Compliance Committee. 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 and borrowings). 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, deposits, borrowings and securitisation notes. The fundamental principles that the Company applies to mitigate interest rate risk are:

- Board approved risk appetite and limits include Net Interest Income at Risk and Economic Value Sensitivity;
- 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; and
- Regular meetings to measure and monitor the impact of movements in interest rates.

NOTES TO THE FINANCIAL REPORT
5. RISK AND CAPITAL MANAGEMENT

5.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
5.1.2 Interest rate risk in the banking book (continued)

			Consolidated						
In thousands of AUD	**Weighted average**	**Floating**			**Fixed interest rate**			**Non-interest**	**Amount per**
2023	**Effective interest**	**interest**	**1 year or less**	**1 to 2 years**	**2 to 3 years**	**3 to 5 years**	**> 5 years**	**bearing**	**Statement of**
Financial assets	**Rate (%)**	**rate**							**Financial Position**
Cash and cash on hand	-	-	-	-	-	-	-	92,573	92,573
Due from other financial institutions	3.80	-	54,620	-	-	-	-	-	54,620
Investment securities	3.48	47,733	56,723	5,368	12,585	20,113	5,056	-	147,578
Loans and advances	5.88	1,055,024	164,928	122,398	9,310	-	-	-	1,351,660
Commission and other receivables	-	-	-	-	-	-	-	18,019	18,019
Other financial assets	-	-	-	-	-	-	-	-	-
Total financial assets		1,102,757	276,271	127,766	21,895	20,113	5,056	110,592	1,664,450
Financial liabilities									
Deposits	3.59	593,602	648,071	10,337	250	-	-	-	1,252,260
Lease liabilities	5.00	-	317	227	-	-	-	-	544
Commission and other payables	-	-	-	-	-	-	-	12,156	12,156
Securitisation liabilities	5.81	-	247,940	-	-	-	-	-	247,940
Subordinated notes	8.62	-	-	-	-	23,270		-	23,270
Term finance Facility	0.19	-	13,823	-	-	-	-	-	13,823
Total financial liabilities		593,602	910,152	10,563	250	23,270		12,156	1,549,993
Net financial assets/(liabilities)		**509,155**	**(633,880)**	**117,202**	**21,645**	**(3,157)**	**5,056**	**98,436**	**114,457**
2022									
Financial assets									
Cash and cash on hand	-	-	-	-	-	-	-	143,280	143,280
Due from other financial institutions	0.45	-	102,528	-	-	-	-	-	102,528
Investment securities	2.08	7,042	106,201	7,512	5,613	16,145	22,073	-	164,586
Loans and advances	3.15	666,201	39,463	178,222	101,349	800	-	-	986,035
Commission and other receivables	-	-	-	-	-	-	-	24,928	24,928
Other financial assets	-	-	-	-	-	-	-	-	-
Total financial assets		673,243	248,192	185,734	106,962	16,945	22,073	168,208	1,421,357
Financial liabilities									
Deposits	0.95	690,494	270,571	2,147	371	1,006	-	-	964,589
Lease liabilities	5.00	-	-	-	866	-	-	-	866
Commission and other payables	-	-	-	-	-	-	-	13,646	13,646
Securitisation liabilities	2.71	-	208,155	-	-	-	-	-	208,155
Subordinated notes	5.90	-	-[1]	-	-	23,567[1]	-	-	23,567
Term finance Facility	0.19	-	-	13,797[1]	-[1]	-	-	-	13,797
Total financial liabilities		690,494	478,726	15,944	1,237	24,573	-	13,646	1,224,620
Net financial assets/(liabilities)		**(17,251)**	**230,534)**	**169,790**	**105,725**	**(7,628)**	**22,073**	**154,562**	**196,737**

[1] Restatement of comparable timeframe

NOTES TO THE FINANCIAL REPORT
5. RISK AND CAPITAL MANAGEMENT

5.1.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
5.1.2 Interest rate risk in the banking book (continued)

					Bank				
In thousands of AUD	**Weighted average**	**Floating**		**Fixed interest rate**				**Non-interest**	**Amount per**
2023	**Effective interest**	**interest**	**1 year or less**	**1 to 2 years**	**2 to 3 years**	**3 to 5 years**	**> 5 years**	**bearing**	**Statement of**
Financial assets	**Rate (%)**	**rate**							**Financial Position**
Cash and cash on hand	-	-	-	-	-	-	-	90,510	90,510
Due from other financial institutions	3.80	-	54,620	-	-	-	-	-	54,620
Investment securities	3.48	47,733	56,723	5,368	12,585	20,113	5,056	-	147,578
Loans and advances	5.88	1,055,024	164,928	122,398	9,310	-	-	-	1,351,660
Commission and other receivables	-	-	-	-	-	-	-	2,975	2,975
Other financial assets	-	-	-	-	-	-	-	-	-
Total financial assets		1,102,757	276,271	127,766	21,895	20,113	5,056	93,485	1,647,343
Financial liabilities									
Deposits	3.59	593,602	648,071	10,337	250	-	-	-	1,252,260
Lease liabilities	5.00	-	146	107	-	-	-	-	254
Creditors and other payables	-	-	-	-	-	-	-	11,440	11,440
Securitisation liabilities	5.81	-	248,726	-	-	-	-	-	248,726
Subordinated notes	8.62	-	-	-	-	23,270	-	-	23,270
Term Finance Facility	0.19	-	13,823	-	-	-	-	-	13,823
Total financial liabilities		593,602	910,766	10,444	250	23,270	-	11,440	1,549,773
Net financial assets/(liabilities)		**509,155**	**(634,495)**	**117,322**	**21,645**	**(3,157)**	**5,056**	**82,045**	**97,570**
2022									
Financial assets									
Cash and cash on hand	-	-	-	-	-	-	-	139,627	139,627
Due from other financial institutions	0.45	-	102,528	-	-	-	-	-	102,528
Investment securities	2.08	7,042	106,201	7,512	5,613	16,145	22,073	-	164,586
Loans and advances	3.15	666,201	39,463	178,222	101,349	800	-	-	986,035
Commission and other receivables	-	-	-	-	-	-	-	3,911	3,911
Other financial assets	-	-	-	-	-	-	-	-	-
Total financial assets		673,243	248,192	185,734	106,962	16,945	22,073	143,538	1,396,687
Financial liabilities									
Deposits	0.95	690,494	270,571	2,147	371	1,006	-	-	964,589
Lease liabilities	5.00	-	-	-	405	-	-	-	405
Creditors and other payables	-	-	-	-	-	-	-	3,652	3,652
Securitisation liabilities	2.71	-	207,825	-	-	-	-	-	207,825
Subordinated notes	5.90	-	-[1]	-	-	23,567[1]	-	-	23,567
Term Finance Facility	0.19	-	-	13,797[1]	-[1]	-	-	-	13,797
Total financial liabilities		690,494	478,396	15,944	776	24,573	-	3,652	1,213,835
Net financial assets/(liabilities)		**(17,251)**	**(230,204)**	**169,790**	**106,186**	**(7,628)**	**22,073**	**139,886**	**182,852**

[1] Restatement of comparable timeframe

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 +/- 100 basis points (2022: +/- 100 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)**	
	2023	**2022**	**2023**	**2022**
100 basis points increase (2022: 100bps)	737	208	737	208
100 basis points decrease (2022: 100bps)	(737)	(208)	(737)	(208)

5.1.3 Market risk - Equity investments

The Group holds no equity investments at 30 June 2023 or 30 June 2022.

5.1.4 Credit risk

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

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

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

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

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 2023, the Group repossessed no properties (2022: one property with a fair value of $220,000 and loan balance and expenses totalling $179,639).

5. FINANCIAL RISK AND CAPITAL MANAGEMENT
5.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.4 Credit risk (continued)

Concentrations of credit risk – Banking activities

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

In thousands of AUD	Consolidated 2023 $	Consolidated 2022 $	Bank 2023 $	Bank 2022 $
Owner occupier home loans	858,148	651,087	858,148	651,087
Investment home loans	437,493	321,081	437,493	321,081
Commercial loans	54,587	13,368	54,587	13,368
Secured personal loans	37	223	37	223
Unsecured personal loans	9	26	9	26
Overdrafts	1,386	250	1,386	250
	1,351,660	986,035	1,351,660	986,035

As at 30 June 2023 there were no borrowers (2022: nil) who individually have facilities which represent 10% or more of the regulatory capital base.

i. Credit quality – loans and advances

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

In thousands of AUD	Consolidated 2023 $	Consolidated 2022 $	Bank 2023 $	Bank 2022 $
Past due but not impaired				
30 days & less than 90 days	6,803	2,994	6,803	2,994
90 days & less than 182 days	1,513	697	1,513	697
182 days or more	296	283	296	283
	8,612	3,974	8,612	3,974
Impaired – mortgage loans	677	-	677	-
Impaired – personal loans	-	-	-	-
Neither past due or impaired	1,341,721	982,061	1,341,721	982,061
Total loans and advances	1,351,660	986,035	1,351,660	986,035

ii. Collateral – loans and advances

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 2023**	**2022**	**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	20	53	Residential property and/or motor vehicles
Overdrafts	99	98	Residential property
Commercial loans	98	100	Commercial and/or residential property, floating charges over business assets

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.4 Credit risk (continued)

The following table shows the Group's Loan to Value Ratio (LVR) on its residential mortgages. Valuation amounts used in these calculations are based on the security value taken at the time the loans were originated or subsequent revaluation.

In thousands of AUD	Consolidated 2023 $	2022 $	Bank 2023 $	2022 $
Loan To Value Ratio				
0 – 60.0%	477,036	335,844	477,036	335,844
60.01 – 80.0%	702,847	505,724	702,847	505,724
80.01 – 90.0%	101,009	104,509	101,009	104,509
>90.01%	14,749	26,091	14,749	26,091
	1,295,641	972,168	1,295,641	972,168

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 2023 $	2022 $	Bank 2023 $	2022 $
Long Term Credit Rating				
1 (AAA to AA-)*	-	-	-	-
2 (A+ to A-)*	54,620	17,620	54,620	17,620
3 (BBB+ to BBB-)*	-	-	-	-
Unrated	-	84,908	-	84,908
	54,620	102,528	54,620	102,528

Investment securities

In thousands of AUD	Consolidated 2023 $	2022 $	Bank 2023 $	2022 $
Long Term Credit Rating				
1 (AAA to AA-)*	91,507	105,088	91,507	105,088
2 (A+ to A-)*	50,039	53,465	50,039	53,465
Unrated	6,032	6,033	6,032	6,033
	147,578	164,586	147,578	164,586

Accrued commission receivable and other debtors

In thousands of AUD	Consolidated 2023 $	2022 $	Bank 2023 $	2022 $
Long Term Credit Rating				
1 (AAA to AA-)*	5	5	-	-
2 (A+ to A-)*	478	699	-	-
3 (BBB+ to BBB-)*	6,208	8,444	-	-
Unrated	11,328	12,414	2,975	3,911
	18,019	21,562	2,975	3,911

** Or equivalent rating by other rating agencies*

5.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.4 Credit risk (continued)

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.

Accounting policy - Recognition and measurement

As set out in note 3.1, loans are initially reviewed when they reach 30 days in arrears, and individually assessed for recoverability. They are then considered to be in default when they reach 90 days past due. An assessment is then made to determine whether loans are classified as impaired or past due.

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

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

Loans with renegotiated terms
The Group renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of loss. Loans that have been restructured due to deterioration in the borrower's financial position are considered on a selective basis where the borrower has demonstrated reasonable efforts to meet their commitments, and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category for 12 months independent of satisfactory performance after restructuring. There have been no instances of loan restructures during this reporting period.

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

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

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

5.1.5 Liquidity risk

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

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

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.5 Liquidity risk (continued)

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 21% (2022: 21%) 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 21% (2022: 21%); the Board has determined a target liquidity trading range of 18% - 25% in normal market situations.

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 2023 there were no deposits greater than 10% of total liabilities (2022: 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	**2023 $**	**2022 $**	**2023 $**	**2022 $**
High quality liquid assets	277,740	363,833	277,544	363,433
Adjusted liability base for regulatory purposes	1,344,148	1,069,753	1,342,421	1,066,655
Liquidity ratio	20.7%	34.0%	20.7%	34.1%

5.1.6 Operational risk

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

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

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

- Compliance with regulatory and other legal requirements
- Third party supplier relationships including the risk of modern slavery
- 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

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.6 Operational risk (Continued)

- Documentation of controls and procedures
- Anti-money laundering (AML)/Know your customer(KYC) protocols
- IT security and vendor management
- 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

Resources for operations are reviewed regularly, with significant investment continuing to take place during the current year in people, technology and processes to enhance the operational risk management framework. Security of data and restriction of access to IT systems is a key area of focus to ensure the Group continues to function and service customers and brokers effectively, without increasing risk of data breaches.

5.1.7 Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Wherever possible, fair values are calculated by the Group using unadjusted quoted market prices in active markets for identical instruments. A quoted price in an active market provides the most reliable evidence of fair value. For all other financial instruments, the fair value is determined by using other valuation techniques.

As part of the fair value measurement, the Group classifies its assets and liabilities according to a hierarchy that reflects the observability of significant market inputs. The three levels of the hierarchy are described below:

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

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

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

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

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

Fair value is determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset or liability. Significant assumptions used in determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts. The information is only relevant to circumstances at the reporting date and will vary depending on the contractual rates applied to each asset or liability, relative to market rates and conditions at the time. No assets held are regularly traded by the Group. Investments in listed entities are tradeable on public markets and are classified as Level 1 financial assets in the fair value hierarchy. At the reporting date, the Group does not hold any Level 1 financial assets.

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1.7 Fair value of financial assets and liabilities (continued)

	Consolidated			
	Fair value		Carrying amount	
In thousands of AUD	2023 $	2022 $	2023 $	2022 $
Financial assets				
Cash and cash equivalents	92,573	140,027	92,573	140,027
Accrued commission receivable	326	530	326	530
Due from other financial institutions	54,620	102,528	54,620	102,528
Investment securities	142,361	158,477	147,578	164,586
Loans and advances	1,367,148	1,021,766	1,357,521	990,066
Total financial assets	1,657,027	1,423,328	1,652,618	1,397,737
Financial liabilities				
Deposits	1,252,737	965,437	1,252,260	964,589
Accrued commission payable	138	262	138	262
Other financial liabilities	285,034	245,519	285,034	245,519
Creditors and other payables	6,088	5,931	6,088	5,931
Total financial liabilities	1,543,997	1,217,149	1,543,520	1,216,301
	Bank			
Financial assets				
Cash and cash equivalents	90,510	139,627	90,510	139,627
Due from other financial institutions	54,620	102,528	54,620	102,528
Investment securities	142,361	158,477	147,578	164,586
Loans and advances	1,365,525	1,018,355	1,356,819	990,506
Other receivables	2,975	3,911	2,975	3,911
Total financial assets	1,655,991	1,422,898	1,652,502	1,401,158
Financial liabilities				
Deposits	1,252,737	965,437	1,252,260	964,589
Other financial liabilities	285,819	245,190	285,819	245,190
Creditors and other payables	11,440	3,652	11,440	3,652
Total financial liabilities	1,549,996	1,214,279	1,549,519	1,213,431

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.

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.

Other financial liabilities
Refer to note 4.5. Recognised at amortised cost, the other financial liabilities comprise the RBA Term Funding Facility, securitisation liabilities and subordinated floating rate notes.

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.

5.2.2 Capital management

The Company's regulator, the Australian Prudential Regulation Authority (APRA) prescribes minimum capital requirements for the Company (Level 1) and the Group (Level 2). The Board determines the minimum capital adequacy ratio (CAR) applicable to both Level 1 and 2 in order to ensure sufficient buffer is maintained above the APRA prescribed minimums. Regulatory capital comprises eligible capital instruments, retained earnings and reserves less prescribed deductions. The CAR is determined as the percentage of regulatory capital to risk weighted assets. Risk weighted assets are determined by applying prescribed risk weights to individual assets, with the risk weights set according to Basel III standard methodology, reflecting the risk attached to each asset.

The Group has documented its strategy to manage capital in its internal capital adequacy assessment process which includes the capital management plan. Capital management is an integral part of the Group's risk management framework.

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.2 CAPITAL MANAGEMENT

5.2.2 Overview (continued)

The APRA Prudential 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).

The Group's policy is to apply a minimum target of 15.0% capital (2022: 15.0%).

During 2023, APRA determined BNK, in regards to APS 111, should deduct from Common Equity Tier 1 Capital, the amount of the cumulative unrealised fair value losses on its debt securities portfolio. At 30 June 2023 this amounted to $5.2m.

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 (Level 2)		Bank (Level 1)	
In thousands of AUD	**2023**	**2022**	**2023** **$**	**2022** **$**
Tier 1 capital	93,156	162,362	91,119	157,943
Tier 2 capital	26,450	25,773	26,202	25,566
Total regulatory capital	119,606	188,135	117,321	183,509
Risk weighted assets	523,746	396,023	526,026	396,843
Capital adequacy ratio	22.84%	47.51%	22.30%	46.24%

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

5.2.3 Share capital

		Bank	
In thousands of AUD	**Note**	**2023** **$**	**2022** **$**
Share capital		122,275	122,275

Movements in ordinary shares on issue		**Number of shares**	**2023** **$**	**Number of shares**	**2022** **$**
Beginning of the financial year		118,202,738	122,275	114,187,400	122,275
Issued during the year in a placement		500,000	375	-	-
Return of Capital		-	(18,995)		
Exercise of performance rights		16,667	9	4,015,338	2,240
		118,719,405	103,664	118,202,738	122,275
Less equity raising costs	5.2.4	-	(3,335)	-	(3,332)
		118,719,405	100,329	118,202,738	118,943

Following the sale of Finsure in February 2022, the Group returned $18,995,105 of equity back to shareholders through a Capital Return in November 2022.

NOTES TO THE FINANCIAL REPORT

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.2 CAPITAL MANAGEMENT

5.2.3 Share capital (Continued)

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.

5.2.4 Equity raising costs

	Bank	
In thousands of AUD	**2023 $**	**2022 $**
Balance at the beginning of the year	3,332	3,307
Equity raising costs incurred	4	36
Deferred tax recognised directly in equity	(1)	(11)
Balance at the end of the year	3,335	3,332

Accounting policy - Recognition and measurement

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

5.2.5 Treasury shares reserve

In thousands of AUD	**2023 $**	**2022 $**
Balance at the beginning of the year	(103)	(103)
Acquired during the year to fulfil the exercise of performance rights	-	-
	(103)	(103)

Pursuant to the BNK Equity Incentive Plan, the Company may issue new shares or acquire shares on market to allocate to staff upon exercising performance rights as set out in note 7.5.2. At 30 June 2023, the Company does not hold any treasury shares.

Accounting policy - Recognition and measurement

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

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.3 EARNINGS PER SHARE

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

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

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

	Discontinuing operations	Continuing operations		Consolidated	
In thousands of AUD	**2022 $**	**2023 $**	**2022 $**	**2023 $**	**2022 $**
Net profit/(loss) attributable to ordinary share holders	72,178	(3,935)	(12,391)	(3,935)	59,787
Basic earnings per share (cents)	62.31	(3.32)	(10.70)	(3.32)	51.61
Diluted earnings per share (cents)	61.02	(3.31)	(10.48)	(3.31)	50.55

Weighted average number of ordinary shares	**2023**	**2022**
Issued Share Capital 1 July	118,202,738	114,187,400
Effect of performance rights exercised	486,576	1,656,622
Weighted average ordinary shares for basic earnings per share 30 June	118,689,314	115,844,022
Effect of performance rights exercised	28,675	2,438,234
Weighted average ordinary shares for diluted earnings per share 30 June	118,717,989	118,282,256

5.4 DIVIDENDS PAID OR PROPOSED AND FRANKING ACCOUNT

During the year the following Dividends were paid.

In thousands of AUD	**Cents per share**	**Total amount $**	**Date of payment**
Ordinary	0.34	40,359	26 July 2022
Total amount		**40,359**	

No dividend was paid or declared by the Company in the comparable period.

5. FINANCIAL RISK AND CAPITAL MANAGEMENT

5.4 DIVIDENDS PAID OR PROPOSED AND FRANKING ACCOUNT (Continued)

Franking credit balance

In thousands of AUD	**2023 $**	**2022 $**
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% (2022: 30%)	20,098	2,546
Franking credits utilised during Dividend distribution	(17,297)	-
Franking credits that arise from additional tax paid in prior financial years	36	-
Franking credits that will arise from the payment/(receipt) of income tax payable/receivable as at the end of the financial year	-	17,408
Franking credits that arise from the receipt of franked dividends	-	144
Franking credits available for subsequent reporting periods at 30% (2022: 30%)	2,837	20,098

6. GROUP STRUCTURE

6.1.1 Investments in subsidiaries

		Bank	
In thousands of AUD	**Note**	**2023 $**	**2022 $**
Investments in subsidiaries at cost		19,896	19,896

Subsidiaries

Subsidiary name	**Segment**	**Ownership 2023**	**Ownership 2022**
Iden Holdings Pty Ltd	Banking	100%	100%
Better Choice Home Loans Pty Ltd	Banking	100%	100%
Future Financial 1 Pty Ltd (Deregistered May 2023)	Banking	0%	100%
Pioneer Mortgage Holdings Pty Ltd	Banking	100%	100%
Romavale Pty Ltd (Deregistered May 2023)	Banking	0%	100%
Australian Capital Home Loans Pty Ltd (Deregistered May 2023)	Banking	0%	100%
Bullion Trust No.1	Banking	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. Consolidated structured entities (CSEs) are established for specific pre-defined purposes operating within a contractual framework.

The financial statements of subsidiaries and CSEs 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. GROUP STRUCTURE

6.1.1 Investments in subsidiaries (Continued)

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 2023 $	Consolidated 2022 $	Bank 2023 $	Bank 2022 $
Office equipment and leasehold improvements		837	837	66	66
Accumulated depreciation		(817)	(802)	(56)	(45)
		20	35	10	21
Motor vehicles		44	44	44	44
Accumulated depreciation		(34)	(29)	(34)	(29)
		10	15	10	15
Computer equipment and IT hardware		171	171	145	145
Accumulated depreciation		(171)	(165)	(145)	(140)
		-	6	-	5
Right of use assets		1,581	1,581	761	761
Accumulated depreciation		(1,121)	(825)	(561)	(428)
		460	756	200	333
Total property, plant and equipment		490	812	220	374

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

In thousands of AUD	Consolidated Right of Use Asset $	Office Equip & L/H imp $	Motor vehicles $	Computer equip & IT hardware $	Total $
Opening written down value at 1 July 2022	756	35	15	6	812
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Depreciation	(297)	(15)	(5)	(5)	(322)
Closing written down value at 30 June 2023	459	20	10	1	490

In thousands of AUD	Bank Right of Use Asset $	Office Equip & L/H imp $	Motor vehicles $	Computer equip & IT hardware $	Total $
Opening written down value at 1 July 2022	333	21	15	5	374
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Depreciation	(133)	(10)	(5)	(5)	(154)
Closing written down value at 30 June 2023	200	11	10	-	220

7. OTHER NOTES

7.1 Property, plant and equipment (continued)

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.

Plant and Equipment

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

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

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

Right of use assets

The Group has recognised right of use assets relating to its leases pursuant to AASB 16 Leases.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability (refer to note 7.4) adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

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

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	3-7 years	Straight-line
Right of use assets	3-5 years	Straight-line
Motor vehicles	8 years	Straight-line
Computer equipment and programs	2-5 years	Straight-line

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

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

7. OTHER NOTES

7.2 Goodwill and other intangible assets

In thousands of AUD	Consolidated 2023 $	Consolidated 2022 $	Bank 2023 $	Bank 2022 $
Goodwill – at cost	7,100	7,100	-	-
Brandnames, trademarks and domain names	170	170	170	170
Other intangible assets	176	176	176	176
Accumulated amortisation	(57)	(40)	(57)	(40)
	119	136	119	136
Total goodwill and other intangibles	7,389	7,407	289	306

Reconciliation of intangible assets

In thousands of AUD	Goodwill	Brand names & trademarks	Software	Broker relationships	Other Intangible	Total
			Consolidated			
	$	$	$	$	$	$
Balance at 1 July 2021	19,172	16,565	5,588	2,210	154	43,689
Additions	-	-	-	-	-	-
Disposals	(12,072)	(16,394)	(5,588)	(2,210)	-	(36,264)
Amortisation	-	-	-	-	(18)	(18)
Balance at 1 July 2022	7,100	170	-	-	136	7,407
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Amortisation	-	-	-	-	(17)	(17)
Closing balance at 30 June 2023	7,100	170	-	-	119	7,389

Reconciliation of intangible assets

In thousands of AUD	Brand names & trademarks	Software	Broker relationships	Other Intangible	Total
		Bank			
	$	$	$	$	$
Balance at 1 July 2021	170	-	-	154	324
Additions	-	-	-	-	-
Amortisation	-	-	-	(18)	(18)
Balance at 1 July 2022	170	-	-	136	306
Additions	-	-	-	-	-
Amortisation	-	-	-	(17)	(18)
Closing balance at 30 June 2023	170	-	-	119	289

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 or developing software, that is not cloud based Software as a Service (SaaS) 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.

7. OTHER NOTES

7.2 Goodwill and other intangible assets (continued)
Accounting policy - recognition and measurement

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:

- Other 10 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	2023 $	2022 $
Banking	7,100	7,100
Total goodwill	7,100	7,100

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

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

Input	**2023**	**2022**
Discount rates (post-tax)	11.3%	12%
Terminal value growth rate	2.5%	2.5%
Budgeted net income growth rate (average of next 5 years)	26%	32%
Budgeted cost rates (average of next 5 years)	8%	7%

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

Budgeted revenue was based on the Group's plans for the CGU taking into account past experience and adjustments regarding expectations of future outcomes including economic conditions.

No impairment loss has been recognised for the CGU at 30 June 2023. The CGU is generating headroom of $14.3m.

7. OTHER NOTES

7.2 Goodwill and other intangible assets (continued)

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

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

Input	Standard	Stressed movement +/-
Discount rates (post-tax)	11.3%	0.9%
Budgeted net income growth rate (average of years 4-5)	11.1%	3.0%

The outcomes of these sensitivity tests are;

- A reduction in the discount rate of 0.9% to 10.42% would result in headroom of $32.0m
- An increase in the discount rate of 0.9% to 12.22% would result in impairment of the CGU
- An increase in the growth rates in Yrs. 4 and 5 by 3.0% to 14.1% would result in headroom of $32.9m
- A reduction in the growth rates in Yrs. 4 and 5 by 3.0% to 8.1% would result in impairment of the CGU

Based on the above stress testing, management is satisfied that levels are appropriate and sufficient headroom remains given the conservative approach taken during the core testing and the stress testing performed.

7.3 Provisions

In thousands of AUD	Note	Consolidated 2023 $	Consolidated 2022 $	Bank 2023 $	Bank 2022 $
Provision for annual leave		794	749	432	429
Provision for long service leave		382	288	97	15
Total provisions		1,176	1,037	529	444

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 Leases

Lease liabilities are payable as follows.

	Consolidated ($)			Bank ($)		
In thousands of AUD	**Future minimum lease payments**	**Interest**	**Present value of lease payments**	**Future minimum lease payments**	**Interest**	**Present value of lease payments**
Less than one year	374	20	354	175	9	166
Between one and five years	210	3	207	89	1	88

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains a lease if the contact conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in AASB 16.

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

The Group recognises a right-of-use asset (refer to note 7.1) and a lease liability at the lease commencement date.

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

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

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

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

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

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

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

7.5 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.

7.5.1 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	**2023 $**	**2022 $**
Short-term employee benefits	2,027	3,127
Post-employment benefits	171	193
Other long-term benefits	224	1,241
Termination benefits	11	-
	2,432	4,561

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. The above details will differ to those detailed in notes 4.3 and 6.0 of the Remuneration report for the comparable year as only KMP's in the current year are included under the comparable period in the remuneration report.

7.5.2 Share-Based Payments

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

Performance rights – grant dates

Grant Date	**Name**	**Rights #**	**Employee #**	**Vesting Date**	**Exercised**	**Exercised held in Escrow**	**Forfeited**	**Balance**
5/12/2019	FY19 Bonus	250,000	5	30/09/2020	66,668	-	16,667	-
				30/09/2021	50,001	-	33,334	-
				07/02/2022[1]	33,332	-	-	-
				30/09/2022	16,666	-	33,332	-
28/08/2020	FY20 Bonus	450,000	6	28/08/2020	255,000	-	-	-
				07/02/2022[1]	-	90,000[2]	-	-
				31/07/2024	-	-	65,000	40,000
1/12/2020	FY20 Bonus	125,000	1	01/12/2022	62,500		-	-
				07/02/2022[1]		62,500[2]	-	-
18/08/2021	TLTIP	4,950,000	9	07/02/2022[1]	1,785,133	239,547[3]	2,925,320	-
1/12/2021	TLTIP	1,200,000	1	07/02/2022[1]	505,296	118,704[3]	576,000	-
1/09/2021	FY21 Bonus	287,500	6	1/09/2021	194,885	-	-	-
				07/02/2022[1]	-	38,440[2]	-	-
				1/09/2025	-	-	28,550	25,625

[1] Final vesting date of LTI's for Finsure executives (Finsure sale completion date).
[2] Options held in Escrow and will be released in line with remaining rights being 4 years from grant date.
[3] TLTIP shares exercised but held in Escrow and will be released on 30th June 2025.

There have been no new Share Options /Performance Rights granted during the reporting period to 30 June 2023.

7. OTHER NOTES

7.5.2 Share-Based Payments (continued)

Performance rights – fair value and vesting conditions

The Group had no Performance Rights expensed in the period to 30 June 2023. During FY22, all remaining performance rights yet to be exercised were fully expensed.

Unlisted Options

On 1 December 2020, the Company issued 1,000,000 unlisted options to Bell Potter Securities Limited (BP) following receipt of shareholder approval at the Company's 2020 AGM. BP had been engaged to provide a broad range of corporate advisory services. At the reporting date these options remain unexercised.

The unlisted options were valued using the Black Scholes method using the following inputs:

	BP Options tranche 2	BP Options tranche 3
Grant date	1 December 2020	1 December 2020
Number granted	500,000	500,000
Fair value at grant date	$0.22	$0.17
Share price at grant date	$0.76	$0.76
Exercise price	$1.00	$1.25
Expected volatility	53%	53%
Expiry date	26 November 2023	26 November 2023
Expected dividends	-	-
Risk-free interest rate	0.25%	0.25%

On 18th July 2022 BP exercised a previous tranche of 500,000 unlisted options at an option price of $0.75.

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.

7.5.3 Transactions with KMP

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

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

	2023 $	2022 $
Total value of term and savings deposits from KMP at reporting date	96,900	26,239
Total interest paid/payable on deposits to KMP	1,386	45
Total value of loans to KMP at reporting date	2,376,140	478,784[1]
Total interest received/receivable on loans from KMP	10,777	19,345[1]

[1] Where applicable, data only up to 7 February 2022, the date of KMP leaving the group.

During the reporting period, loans totaling $2.7m were provided to Mr Allan Savins (CEO), for the purpose of purchasing residential properties. These loans were assessed and granted under the same controls, procedures and applying the same terms and conditions as all other BNK funded loans.

7. OTHER NOTES

7.5.4 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.

7.5.5 Related party transactions with director related entities

During the reporting period the Group sub-leased office space from Finsure Finance And Insurance Pty Ltd, a related entity of Mr John Kolenda. Rental income paid during the period Mr Kolenda was a Director (30 September 2022 to 27 April 2023) totaled $42,000 (2022: $281,995). There was no balance receivable at 30 June 2023 (7 February 2022; $42,835). The comparable period of FY2022 was up to the date Mr Kolenda ceased to be a related party.

During the same period, the Group paid $28,380 to Finsure Finance and Insurance Pty in relation to Aggregation Sponsorship (30 June 2022: nil).

7.6 Auditor's remuneration

Auditors of the Group – KPMG

In AUD	2023 $	2022 $
Audit and review of the financial statements	473,253	510,185
Regulatory audit services	156,475	168,686
Total audit and assurance services	629,728	678,871
Accounting and tax opinions	-	28,463
Total advisory and other services	-	28,463
Total amounts paid/payable to KPMG	629,728	707,334

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.

7.7 Standby borrowing facilities

The Company has an overdraft facility of $10,000,000 (2022: $10,000,000) with CUSCAL Ltd which is secured by a cash deposit. As at 30 June 2023, the entire facility was unused (2022: $nil).

7. OTHER NOTES

7.8 Commitments and contingencies

In thousands of AUD	**2023 $**	**2022 $**
(a) Capital expenditure	-	-
(b) Outstanding loan commitments		
Loans approved not advanced	14,006	30,496
Loan funds available for redraw	41,835	29,397
Unutilised overdraft limits	219	256
Total lending commitments	56,060	60,149
(c) Lease commitments		
Due not later than one month	34	32
Due later than one month and not later than three months	67	64
Due later than three months and not later than one year	309	297
Due more than one year but less than five years	227	637
Due more than five years	-	-
	637	1,030

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.

As part of the Finsure sale, the share sale agreement (SSA) contains certain warranties and indemnities. The SSA contains warranties covering title, authority, the conduct of business, and a range of other matters. The warranties are supported by a general indemnity and a tax indemnity which are capped and time bound. BNK considers the warranties and the indemnities were entered into on market standard terms for a transaction such as the Finsure Transaction. The Group considers the possibility of any outflow to be remote and therefore no provision has been recognised in relation to the Finsure sale warranties.

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.

7.9 Events subsequent to balance date

On the 27th July 2023, BNK established a Self-Securitised Warehouse (PRIMUS Trust 2023-1R). The warehouse will initially hold $297m of Loan assets.
Ms Guthrie resigned as a Director effective 31 July 2023.

There have been no other matters or circumstances of a material nature that 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 Change in accounting policy

There were no new material accounting standards that have significantly impacted the Group during the reporting period.

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 2023 are in accordance with the Corporations Act 2001, including:
        i. Giving a true and fair view of its financial position as at 30 June 2023 and performance for the financial year ended on that date;
        ii. Complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

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

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

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2023.

On behalf of the Board

Don Koch
Chairman

25th August 2023

Independent Auditor's Report

To the shareholders of BNK Banking Corporation Ltd

Report on the audit of the Financial Report

Opinions

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

In our opinion, each of the accompanying Group Financial Report and Company Financial Report is 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 2023 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 2023
- 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 Ltd (the ***Company***) and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit 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 opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* 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 (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key Audit Matters

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

- Loans and Advances – Provision for credit losses

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

- Carrying Value of Goodwill
- Net Present Value of future trail commission contract asset and payable

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

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

Loans and Advances – Provision for credit losses $2.9 million – Group and Company

Refer to Note 3.2 to the Group Financial Report and Company Financial Report

The key audit matter	How the matter was addressed in our audit
The provision for credit losses relating to loans and advances held at amortised cost is a key audit matter due to the: • Significance of the loans and advances balances; and • The degree of complexity and judgement applied by the Group and Company in determining the expected credit loss (ECL) provisions, including post-model adjustments. The ECL model is reliant on data inputs and assumptions, including historical data the Group and Company used to determine probabilities of default and incorporating forward-looking information reflecting potential future economic events. This involves significant judgment applied by the Group and Company and required by us in challenging these assumptions. We exercised judgement to assess the ECL model's application of the requirements of AASB 9 *Financial Instruments*. This includes: • The Group and Company's definition of what represents a significant increase in credit risk; • The method used to estimate probability of default, loss given default and exposure at	Working with our credit specialists, our procedures included: • Assessed the appropriateness of the Group and Company's accounting policies against the requirements of the *Australian Accounting Standards*, including the Group's definition of what represents a significant increase in credit risk. • Developed an independent expectation in the form of a range of possible ECL amounts, and provision coverage ratios calculated based on our independent expectation. This was compared against the ECL provision of the Group and Company. This involved using both publicly available industry data and internal historical loan data of the Group and Company; • Testing a sample of key data elements used in developing our independent expectation to relevant source documentation; • Compared the total provision coverage ratio, including post-model overlays, of the Group and Company against the provision coverage ratio of a selection of secured loan portfolios of other comparable financial institutions; • Reconciled the output of the ECL model and post-model overlays to the ECL provision recorded in the general ledger and financial

default; and • Judgement around the impact of current economic conditions, including increasing interest rates and inflation on forward looking information. We involved credit specialists to supplement our senior audit team members in assessing this key audit matter.	reports; and • Assessed the Group and Company's disclosures in the financial reports using our understanding obtained from our testing and against the requirements of the *Australian Accounting Standards*.

Carrying Value of Goodwill $7.1 million – Group

Refer to Note 7.2 to the Group Financial Report

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

A key audit matter was the Group's annual testing of goodwill impairment, required by AASB 136 *Impairment of Assets*, given the extent of judgement involved. We focused on the Group's determination of the identified Cash Generating Units (CGUs) and the key assumptions the Group applied in their value in use (VIU) model, including:
• Forecast cash flows, and growth rates;
• Terminal value growth rate; and
• Discount rate.
These assumptions are complicated in nature and vary according to the conditions and environment the Group is subject to from time to time. The assumptions are based on historical performance and forward-looking forecasts taking into account the Group's strategy, market conditions, current economic outlook, emerging regulatory changes and industry developments, making them judgemental in nature.
The Group's modelling is sensitive to changes in the assumptions used.
We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.
	Our procedures included:
	• Evaluated the Group's identification of the CGU against the requirements of the *Australian Accounting Standards*. We also compared the Group's assessment against our understanding of the operations of the Group's business and how independent cash flows were generated;
	• Worked with our valuation specialists to:
	  • Consider the appropriateness of the VIU method applied by the Group to perform the annual test of goodwill for impairment against the requirements of the *Australian Accounting Standards*;
	  • Assess the integrity of the VIU model used, including testing the accuracy of the underlying calculations;
	  • Assess the terminal value growth rate using our knowledge and experience of the Group and the industry it operates in; 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.
	• Considered the sensitivity of the model by varying key assumptions, such as discount rate and growth rates. We did this to identify those assumptions at higher risk of bias or inconsistency in application and to focus our

KPMG

	further procedures;
	• Compared the Group's forecast cash flows included in the VIU model to Board approved FY24 forecast;
	• Assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the VIU model;
	• Challenged the Group's forecast cash flow and growth rate assumptions:
	  • We checked the consistency of the growth rates to the Group's stated plan and strategy, past performance of the Group and our experience regarding the feasibility of these in economic environment in which they operate;
	  • We assessed market and regulatory impacts on the Group's key assumptions for indicators of bias and inconsistent application, using our knowledge and experience of the industry, the Group's performance and its operations.
	• Assessed the disclosures in the Group's Financial Report using our understanding obtained from our testing and against the requirements of the *Australian Accounting Standards*.

Net Present Value of future trail commission contract asset $16.8 million and payable $5.9 million

Refer to Note 4.4 to the Group Financial Report

The key audit matter	How the matter was addressed in our audit
The Group's policy is to recognise: • A contract asset representing the expected value of future trail commissions receivable in accordance with AASB 15 *Revenue from Contracts with Customers; and* • A corresponding trail commission payable representing the net present value of future trail commissions payable in accordance with AASB 9 *Financial Instruments*. This is a key audit matter due to the complexity and the degree of judgement we use in assessing the Group's estimate of the value of trail commissions receivable and payable. Key	Our procedures included: • Assessed the appropriateness of the Group and Company's accounting policies against the requirements of the *Australian Accounting Standards*; • Assessed the extraction of loan data used in the Group's Net Present Value (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

KPMG

assumptions in the estimate are: • Discount rates; • Weighted average life (WAL) of portfolio loans – there is a degree of estimation uncertainty in relation to the expected future WAL which is estimated based on the current run off rates in the underlying portfolio. We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.	methodology adopted in the Group's NPV model across the trail commission portfolios against accepted industry practice and the requirements of the *Australian Accounting Standards*; • Evaluate the discount rates against publicly available market data for comparable entities; • Assess the weighted average life of portfolio loans based on actual performance adjusted for expectations of future performance. We do this by using our understanding of the underlying portfolio and the industry; and • Assess the integrity of the Group's NPV model including testing the accuracy of the underlying calculations. • Assessed the disclosures in the Group's financial report using our understanding obtained from our testing and against the requirements of the *Australian Accounting Standards*.

Other Information

Other Information is financial and non-financial information in BNK Banking Corporation Ltd'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 opinion on the Financial Reports does 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 audit of the Financial Report, 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 audit, 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 Report

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 control to enable the preparation of Financial Reports 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 and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether 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 opinion.

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 Reports.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.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 Ltd for the year ended 30 June 2023, 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 13 to 21 of the Directors' report for the year ended 30 June 2023.

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

25 August 2023

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 25th August 2023.

(a) Distribution of equity securities

Spread of holdings	Number of holders	Number of units	Percentage of total issued capital
1 - 1,000	136	68,430	0.06%
1,001 - 5,000	1,600	3,878,395	3.26%
5,001 - 10,000	115	911,374	0.77%
10,001 - 100,000	266	9,675,540	8.15%
100,001 +	83	104,185,666	87.76%
TOTAL	**2,200**	**118,719,405**	**100%**

(b) Twenty largest holders of quoted equity securities

Rank	Shareholder	Number of units	Percentage of issued capital
1	SF LEGACY INVESTMENTS LIMITED	11,269,346	9.492%
2	TODLAW PTY	10,917,388	9.196%
3	FIRSTMAC LIMITED	10,823,650	9.117%
4	HSBC CUSTODY NOMINEES	8,700,410	7.329%
5	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	7,721,456	6.504%
6	RESIMAC LIMITED	5,411,285	4.558%
7	RESIMAC LIMITED	4,468,902	3.764%
8	CARPE DIEM ASSET MANAGEMENT PTY LTD	2,430,190	2.047%
9	CITICORP NOMINEES PTY LIMITED	2,385,314	2.009%
10	NG CAPITAL MANAGEMENT PTE LTD	2,272,560	1.914%
11	KOLEET PTY LTD	2,080,144	1.752%
12	HOLDING CORPORATION PTY LTD	2,059,099	1.734%
13	INGOT CAPITAL INVESTMENTS PTY LTD	2,004,524	1.688%
14	KEYBRIDGE CAPITAL LIMITED	1,957,165	1.649%
15	AOYIN GROUP LIMITED	1,921,407	1.618%
16	NATIONALE SMSF PTY LTD	1,857,000	1.564%
17	PYRAMID CAPITAL PTY LTD	1,581,969	1.333%
18	MR SIMON BEDNAR + MRS JENNIFER BEDNAR	1,153,333	0.971%
19	BOSS LADY HOLDING PTY LTD	1,153,333	0.971%
20	NOAH JAMES INVESTMENTS PTY LTD	1,133,721	0.955%
			70.167%