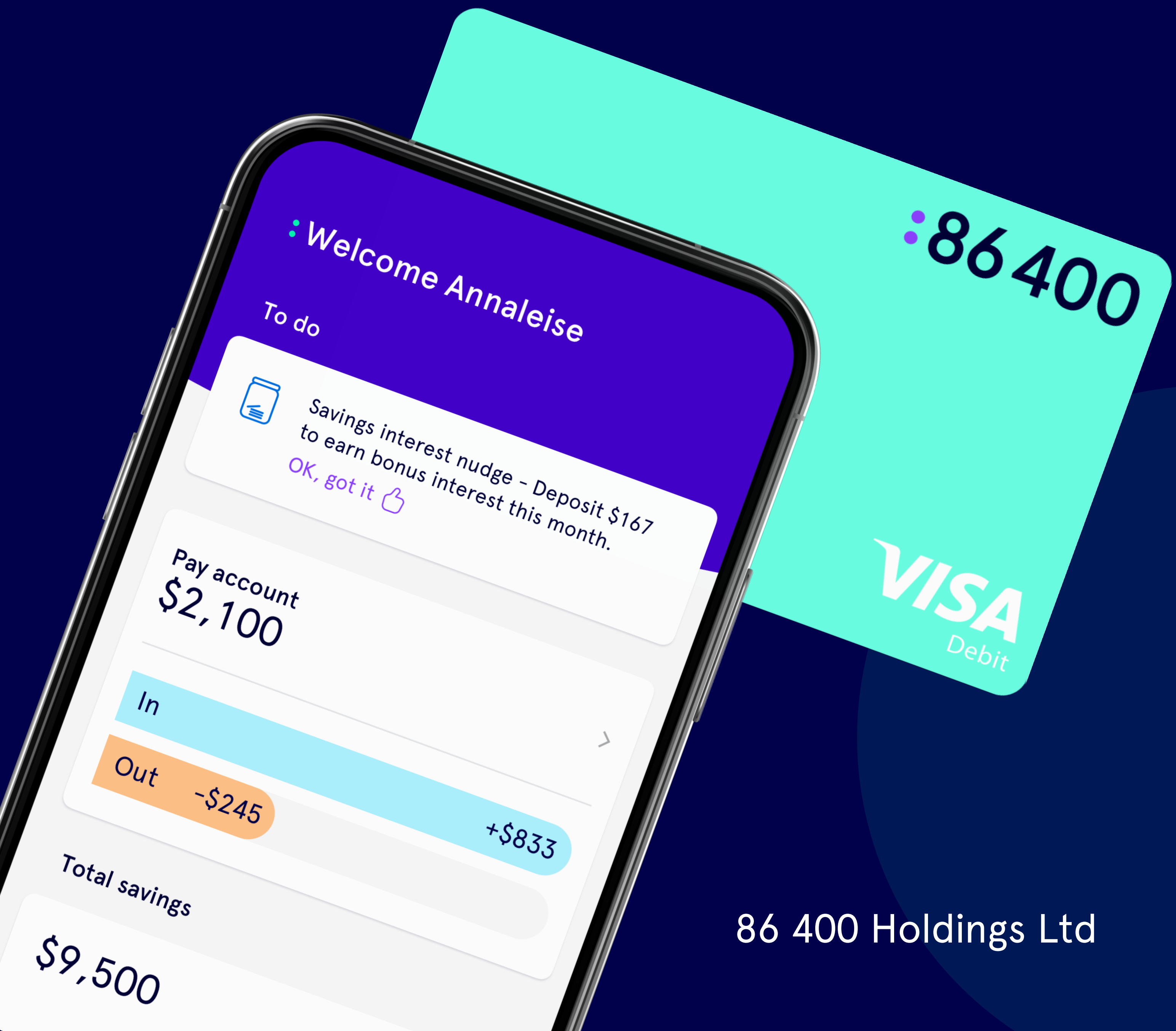
86 400

Annual Report 2020



86 400 Holdings Ltd

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The 86 400 story

Our financial lives are now more complex than ever. With the number of transactions we're performing each month increasing, as well as holding products across different financial institutions, many Australians have been left feeling anxious, frustrated and stressed about their money.

So we set out to build a new type of bank, Australia's first smartbank. And we're here to help every Australian feel in control of their money every second of every day. All eighty-six four hundred of them.

Since launching to the market in September 2019 we've been dedicated to stripping the waste out of banking and providing customers with new ways to find value from their money. We've delivered everyday banking capabilities alongside smart features so customers can see what's actually going on with their money and stay one step ahead. Our smart technology surfaces the most relevant information about spending, saving and bills so customers can plan forward as well as look backwards, no matter where they bank.

Just 10 weeks after launch we introduced Australia's first and only digital home loan for mortgage brokers turning the home loan application process on its head. With electronic collection of income and expenses upfront, we've been able to reduce decision times to a matter of hours and provide peace of mind for both applicants and brokers.

By continuing to work closely with our customers to provide smarter alternatives to the way they manage their money, we're now embarking on the next phase of our mission to give even deeper insights to put Australians back in control of their financial world.

Chair & CEO Report

The past 12 months have seen our vision of delivering a smarter alternative to the way Australians bank become a reality. Since launching the bank, just days after receiving our full banking licence in July 2019, we have continued to release products and features at a rapid rate. Today we are the only neobank in Australia to offer competitive savings, a fully featured transaction account and a range of home loans offered via a large network of brokers.

The team's relentless focus on delivery has resulted in some major achievements:

- Over 225,000 accounts on our platform
- More than $300m in deposits
- More than 650,000 transactions and balance updates each day
- Significant momentum in the growth of our recently launched mortgages

Customers are clearly delighted with what we do, confirmed by an NPS score of 47.4, one of the highest in Australian banking after only 12 months.

With our home loan offerings gaining momentum, we have a clear path to profitability and will expand our lending products throughout the coming year, along with a range of smart products and features to further differentiate us in the market.

Fast growing banks require substantial capital and we're pleased to have closed our Series A capital raise in March of this year with $34m of new equity, bringing our total capital to $90m. The funds will help further accelerate product and feature development and support our mortgage book growth as well as fund our planned losses. Our Series B capital raise has recently opened (with the continued support of Morgan Stanley) and we have received strong initial interest from both Australian and international institutional investors.

From the solid foundation the team has built over our first year, we have set ambitious goals for our second, as we continue to work towards our mission of helping every Australian take control of their money.

We would like to thank our board of directors for their support and guidance as well as our executive team and all our colleagues at 86 400, for their hard work and outstanding achievements over the past 12 months.

Finally, we would like to thank our shareholders for their continued support.

Anthony Thomson
Chairman

Robert Bell
CEO

$200 in additional savings interest

When compared to the bonus savings rate of the big banks in 2020

$2,300 saving on home loan interest

0.64% lower interest rate on average compared to the big banks

Helping Australians save over $3,000 p.a.

$200 saved on energy bills

70% of customers using Energy Switch found a better deal

$550 saving on subscriptions, bills and late fees

Over 30k bills predicted daily helping Australians save on unused subscriptions and avoiding late fees

A year of delivery & firsts

18 July 2019
Banking Licence
86 400 officially becomes a bank, in App Store Aug 2

10 Sep 2019
1st neobank to launch
86 400 public launch

10 Sep 2019
Pay & Save
1st neobank to launch a fully featured transaction & savings account

21 Oct 2019
Launch Campaign
East coast above the line and national digital campaign launched

12 Nov 2019
1st digital home loan for brokers
86 400 home loans launched to select brokers

3 Feb 2020
Multiple save accounts
Earn bonus interest on 3 accounts up to $300k

28 Feb 2020
Joint accounts launched
1st neobank to launch Joint accounts

6 Mar 2020
Energy Switch
1st bank to help Australians switch and save on their energy bills

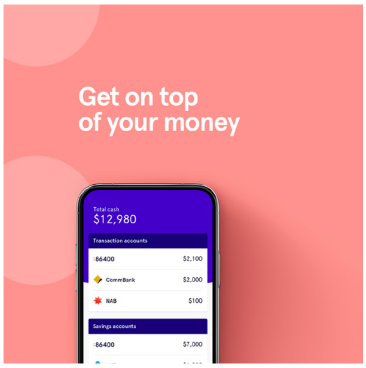
1 Apr 2020
Refer a Friend
Invite friends and get $10 each time they join

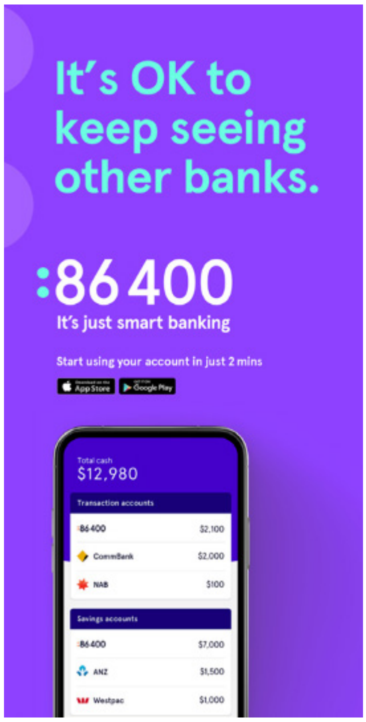
3 June 2020
AFG Distribution Agreement
Access to 3,000 additional brokers providing. 1 in 3 mortgage brokers in Australian now have access to 86 400

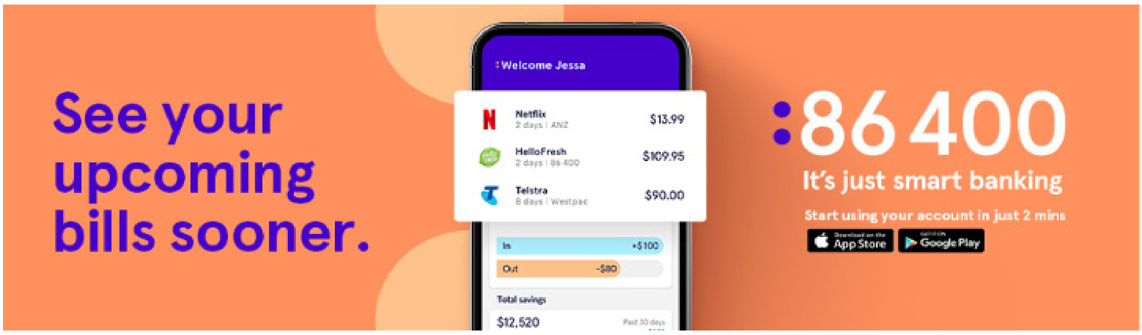
30 June 2020
225,000 Accounts on platform
$310m Deposits
$39m Loans and commitments

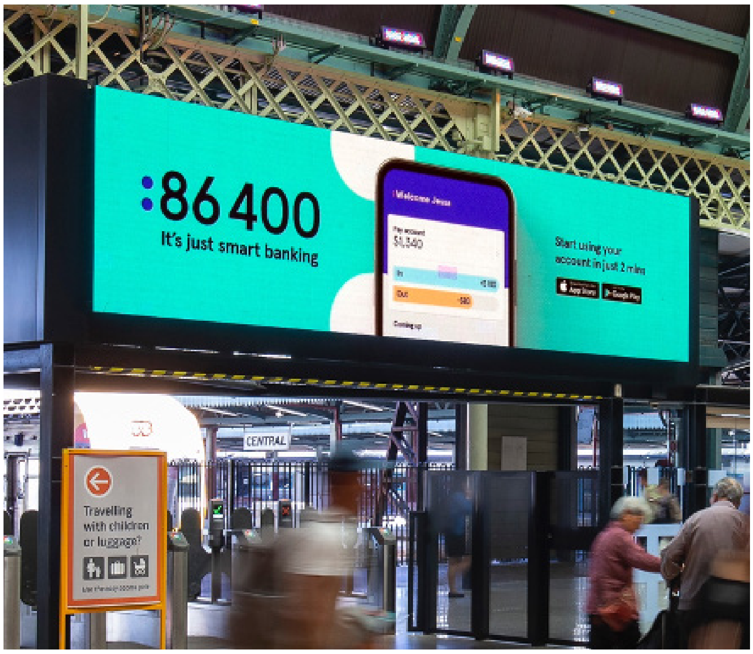
Growing 86 400

digitally and physically









@86400smartbank

@86400bank

@86400smartbank

86 400 smartbank

What our customers are saying

Great smart banking app also using it to track all my spending across all my different banking apps kudos to the guys for putting this together it is definitely simplifying my saving and spending.

Ante
Appstore review
★★★★★

This has been a very useful app.
The ability to see the money across my other banks (plus the security of this app being from a bank itself) is great, and it's easy and fast.

Christian
Google Play
★★★★★

86 400 did not require any payslips or the normal amount of paperwork needed to support mortgage applications. Well done 86 400 on delighting us with a super efficient turnaround time from application to unconditional approval in 5 hours.

Bernard Desmond
Founder/CEO
Blank Financial

The Best Bank Ever.
I read a news article about this bank thought I would give it a go. Took 2 minutes to make an account and I was given 2 accounts one for saving and one for spending. This bank is everything I hoped for. Love this bank and highly recommend it to all.

Kimberly
Appstore review
★★★★★

I love this app and this bank.
It is now my main account that I use for everything!

Julie
Google Play
★★★★★

Thank you for ensuring we've had an amazing experience with 86 400. The customers who have jumped on board are raving fans as they love everything about bank so far. Everything from the digital application experience right through to the technology of the App. Keep up the great work guys!

Aleksander Nau Moski
Branch Principal/Wealth Manager
Yellow Brick Road

Technology-led

100% cloud based

Proprietary Customer Experience Engine

Integrated with 40+ domestic & global fintechs

Data driven experiences

Our team

We've found the best and brightest in banking and technology and liberated them to create the bank they've always dreamed of, with smarter technology and experiences that people have come to expect in a world run on your mobile.

We promote a collaborative and inclusive working environment so every member of the team can create their best work and realise their full potential. Over the last year we have grown the team by 25% from 85 to 110 and keeping our values at the forefront of everything we do has been a core pillar of our success.

While the COVID-19 has caused significant disruption to daily life, our team rose to the challenge, seamlessly transitioning to a work from home environment and maintained our rapid growth and delivery schedule.

Directors’ Report

The Directors of 86 400 Holdings Ltd (“86 400”) and its controlled entities (the “Group") submit their report, together with the financial report for the period ended 30 June 2020. This Directors’ Report has been prepared in order to comply with the provisions of the Corporations Act 2001.

Information about Directors

The Directors who held office of all Group entities during the financial year are:

Anthony Thomson

Anthony is the founder and former Chairman of two disruptive banks in the UK. Metro Bank, the UK’s first new bank in 150 years and Atom Bank, the UK’s first bank for mobile. He sits on the advisory board of the Arab Banking Corporation. Anthony has served as the Goldman Visiting Professor for Innovation and Enterprise at Newcastle Business School and Visiting Professor at London Metropolitan University. He is a co-author of ‘No small change’, a book on why the marketing of financial services must improve to provide better customer outcomes. Anthony was appointed in September 2018 and is Chair of the Board and Chair of the Governance & Remuneration Committee.

Craig Kennedy MBA, GAICD FFIN

Craig is the managing director of Cuscal Limited, director of NPP Australia Limited and a member of the Australian Payment Council. He has more than 30 years of experience in the financial services sector including senior management positions with Espreon Ltd, Monster Worldwide, ING Bank (Australia) Limited and Advance Bank / St George Bank. Craig was appointed in September 2017 and is a member of the Risk Committee and Governance & Remuneration Committee.

Sean O’Donoghue BComm MBA CA (resigned 16 August 2019)

Sean is the CFO of Cuscal Limited and brings to 86 400 extensive hands-on management experience working for over 30 years in senior financial roles in Australia and internationally. During his career, Sean has overseen major financial transformation programs at Multiplex and Westpac, including leading the program which brought together the finance functions of the St. George Wealth Management business with BT Financial Group to form one of the largest wealth management businesses in Australia. Sean was appointed in September 2017 and is a member of the Audit Committee. Sean has resigned as a director on 16 August 2019.

Paul Lahiff BScAgr, GAICD (appointed 16 August 2019)

Paul is the Chairman of ISO 20022 Migration Steering Committee and is a non-executive director of Austbrokers, Sezzle Inc. and NESS Superannuation. Paul was previously the Chair of Cuscal Limited and the inaugural Chair of NPP Australia Limited. He has also served on the boards of Sunsuper, Cancer Council NSW, House With No Steps and Thorn Group. Paul runs his own consultancy business specialising in strategy formulation, executive coaching and mentoring, and Board governance.

Belinda Cooney BComm Master of Finance (Investment Banking), CA

Belinda serves as the CFO of Interactive, Australia’s largest privately held IT services organisation. She has over 20 years’ experience in the financial services sector, the majority of which has been with Macquarie Capital in both Principal Investments and M&A advisory to the Telecommunications, Media and Technology industry sector in Australia, the USA and Asia. Belinda was appointed in September 2018 and is Chair of the Audit Committee and a member of the Risk Committee.

Directors' Report (continued)

Information about Directors (continued)

Akiko Jackson MBA GAICD

Akiko has more than 25 years of leadership and strategic advisory experience in financial services across Australia, Japan and the US. She is highly experienced in risk management, equity raising (including Initial Public Offering), strategy development and large-scale transformation including digitisation, turn around and post-merger integration. Her executive experience includes Commonwealth Bank, Westpac and Shinsei Bank. Akiko was appointed in September 2018 and is Chair of the Risk Committee and a member of the Governance & Remuneration Committee and the Audit Committee.

Kim Clarke GAICD (appointed 27 March 2020)

Kim is the Executive for Enterprise at MYOB, a leading provider of online business management solutions. She is an internationally experienced C-suite executive with over 20 years in the software, telecommunications, and energy sectors. She has diverse functional experience spanning technology, finance, marketing, sales and commercial disciplines and was appointed in March 2020.

Meeting attendance

Director	Board		Governance and Remuneration		Audit		Risk	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
A Thomson	12	12	4	4	-	-	-	-
C Kennedy	12	12	4	4	-	-	4	4
S O'Donoghue	1	1	-	-	1	1	-	-
P Lahiff	11	11			3	3		
B Cooney	12	12	-	-	4	4	4	4
A Jackson	12	12	4	4	4	4	4	4
K Clarke	4	4	-	-	-	-	-	-

Company Secretary

Christina Seppelt LLB, MLM

Christina is responsible for leading the legal and company secretarial activities of 86 400. She has 20+ years' experience across legal, corporate advisory and governance roles and prior to 86 400 held legal and company secretarial roles at a number of financial services providers, and a senior lawyer role at a large commercial law firm. Christina was appointed as company secretary of 86 400 on 2 October 2018.

Principal Activity

The principal activities of the Group during the period is the operation of a digital banking business, and investment in technology to build and enhance the digital banking business.

Future Developments

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in prejudice to the Group.

Directors' Report (continued)

Review of Operations

The loss of the Group after providing for income tax amounted to $22,307,000 (2019: loss after income tax of $10,925,000). The loss of 86 400 Holdings Ltd after providing for income tax amounted to $98,000 (2019: loss after income tax of $61,000).

The operating result for the period reflects the activities undertaken by the Group during the period. This includes the first full year of operations as an Authorised Deposit-Taking Institution, launching transactions, savings and mortgages products, investment in technology to enhance the customer experience and support the planned growth of the business. The Group also issued $58,613,025 in share capital during the period (2019: $17,000,000).

Change in State of Affairs

On 18 July 2019, 86 400 Ltd was granted an unrestricted banking license by the Australian Prudential Regulation Authority (APRA) and became an Authorised Deposit-taking Institution (ADI). 86 400 Holdings Ltd was granted authority to operate as a Non-Operating Holding Company (NOHC) by APRA.

During the period, 86 400 Ltd commenced the provision of digital banking services to retail customers, including transaction accounts, savings accounts and mortgages.

There were no other significant changes in the state of affairs of 86 400 or the Group during the year.

Subsequent Events

There has not been any matters or events that have arisen since the end of the period, that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future periods.

Dividends

In respect of the period ended 30 June 2020, the Directors have proposed that no dividend will be paid.

Indemnification of Officers and Auditors

During the period, the Group paid a premium in respect of a contract insuring the Directors of 86 400 (as named above), the company secretary, and all executive officers of 86 400 and of any related body corporate against a liability incurred as such a Director, secretary or executive officer to the extent permitted by the Corporations Act. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Group has not otherwise, during or since the end of the period, except to the extent permitted by law, indemnified or agreed to indemnify an officer, director or secretary of the Group or of any related body corporate against a liability incurred as such by an officer or auditor.

Rounding Off of Amounts

86 400 is a company of a kind referred to in ASIC Instrument 2016/191 dated 24 March 2016 and in accordance with that Instrument, amounts in this directors' report and the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Directors' Report (continued)

Auditor's Independence Declaration

The auditor's independence declaration is included in this Financial Report.

Signed on behalf of the Directors in accordance with a resolution of the Directors made pursuant to s.298 (2) of the Corporations Act 2001.

Anthony Thomson
Chairman
Sydney, 28 August 2020

Auditor's Independence Declaration

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

Phone: +61 2 9322 7000
www.deloitte.com.au

The Board of Directors
86 400 Holdings Ltd
Level 6, 35 Clarence Street
Sydney NSW 2000

28 August 2020

Dear Board Members

Auditor's Independence Declaration to 86 400 Holdings Ltd

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the Directors of 86 400 Holdings Ltd.

As lead audit partner for the audit of the financial report of 86 400 Holdings Ltd for the financial year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants

:86 400

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2020

		Consolidated		Parent	
		'000	'000	'000	'000
	Note	2020	2019	2020	2019
Interest income		**1,218**	17	**16**	17
Interest expense		**(2,278)**	-	**(25)**	-
Net interest income	2	**(1,060)**	17	**(9)**	17
Fee and commission income		**74**	-	**22,399**	27,666
Fee and commission expense		**(2,048)**	(397)	**(144)**	(75)
Net fee and commission income / (expense)	3	**(1,974)**	(397)	**22,255**	27,591
Other income		**-**	36	**-**	36
Other operating income		**-**	-	**-**	-
Net operating income		**(3,034)**	(344)	**22,246**	27,644
Employment expenses		**(13,008)**	(8,402)	**(18,745)**	(19,547)
Marketing expenses		**(4,037)**	(2,152)	**(367)**	(2,152)
Technology expenses		**(4,000)**	(1,912)	**(1,463)**	(3,314)
Depreciation and amortisation		**(2,443)**	-	**(129)**	-
Occupancy costs		**(600)**	(432)	**(515)**	(432)
Other expenses		**(2,239)**	(2,355)	**(1,176)**	(2,226)
Impairment		**(104)**	-	**-**	-
Operating expenses		**(26,431)**	(15,253)	**(22,395)**	(27,671)
Profit / (Loss) before income tax		**(29,465)**	(15,597)	**(149)**	(27)
Income tax benefit / (expense)	9	**7,158**	4,672	**51**	(34)
Profit / (Loss) after income tax benefit / (expense)		**(22,307)**	(10,925)	**(98)**	(61)
Other comprehensive income, net of tax		**-**	-	**-**	-
Total comprehensive profit / (loss) for the year		**(22,307)**	(10,925)	**(98)**	(61)

Prior year comparatives have been reclassified to reflect current year presentation. The reclassification had no impact on the prior year total comprehensive loss.

:86 400

Statement of Financial Position

For the year ended 30 June 2020

		Consolidated		Parent	
		'000	'000	'000	'000
	Note	2020	2019	2020	2019
Assets					
Cash and cash equivalents	10	**35,068**	2,498	**925**	1,358
Investments	11	**276,014**	-	**166**	-
Loans and advances to customers	12	**29,918**	-	**-**	-
Due from related parties	8	**963**	2,595	**18,420**	7,944
Investment in controlled entities		**-**	-	**89,513**	30,900
Deferred tax assets	9	**3,821**	1,404	**1,663**	1,404
Other assets	17	**2,265**	619	**203**	1,068
Property and equipment	15	**3,508**	-	**3,358**	-
Intangible assets	16	**20,672**	16,721	**-**	-
Total assets		**372,229**	23,837	**114,248**	42,674
Liabilities					
Deposits	14	**309,913**	-	**-**	-
Payables and provisions	18	**5,818**	5,364	**4,973**	6,440
Due to related parties	8	**-**	-	**18,362**	5,177
Lease liability	15	**2,943**	-	**2,943**	-
Deferred tax liabilities	9	**3,848**	3,422	**48**	-
Total liabilities		**322,522**	8,786	**26,326**	11,617
Net assets		**49,707**	15,051	**87,922**	31,057
Equity					
Issued capital, net	20	**87,950**	31,000	**87,950**	31,000
Retained earnings / (losses)		**(38,366)**	(15,964)	**(56)**	42
Reserves		**123**	15	**28**	15
Total equity		**49,707**	15,051	**87,922**	31,057

:86 400

Statement of Changes in Equity

For the year ended 30 June 2020

Consolidated

	Issued capital $'000	Reserves $'000	Retained losses $'000	Total $'000
At 1 July 2019	**31,000**	**15**	**(15,964)**	**15,051**
Issued capital	**58,613**	**-**	**-**	**58,613**
Share issue costs	**(1,663)**	**-**	**-**	**(1,663)**
Share-based payment reserves	**-**	**13**	**-**	**13**
General reserve for credit losses	**-**	**95**	**(95)**	**-**
Total comprehensive loss	**-**	**-**	**(22,307)**	**(22,307)**
As at 30 June 2020	**87,950**	**123**	**(38,366)**	**49,707**
At 1 July 2018	14,000	-	(5,039)	8,961
Issued capital	17,000	-	-	17,000
Share-based payment reserves	-	15	-	15
Total comprehensive loss	-	-	(10,925)	(10,925)
As at 30 June 2019	31,000	15	(15,964)	15,051

Parent

	Issued capital $'000	Reserves $'000	Retained earnings $'000	Total $'000
At 1 July 2019	**31,000**	**15**	**42**	**31,057**
Issued capital	**58,613**	**-**	**-**	**58,613**
Share issue costs	**(1,663)**	**-**	**-**	**(1,663)**
Share-based payment reserves	**-**	**13**	**-**	**13**
Total comprehensive loss	**-**	**-**	**(98)**	**(98)**
At 30 June 2020	**87,950**	**28**	**(56)**	**87,922**
At 1 July 2018	14,000	-	103	14,103
Issued capital	17,000	-	-	17,000
Share-based payment reserves	-	15	-	15
Total comprehensive loss	-	-	(61)	(61)
At 30 June 2019	31,000	15	42	31,057

:86 400

Statement of Cash Flows

For the year ended 30 June 2020

		Consolidated		Parent	
	Note	'000 2020	'000 2019	'000 2020	'000 2019
Interest received		**972**	17	**16**	17
Interest paid		**(2,278)**	-	**(25)**	-
Fees and commissions received		**80**	-	**-**	-
Fees and commissions paid		**(2,314)**	(386)	**(144)**	(80)
Expenses paid		**(29,501)**	(24,045)	**(24,058)**	(23,257)
Net increase in loans and advances to customers		**(30,020)**	-	**-**	-
Net increase in customer deposits		**309,904**	-	**-**	-
Income and indirect taxes (paid)/refunded		**5,167**	7,233	**(160)**	(1,155)
Net cash provided by / (used in) operating activities	22	**252,010**	(17,181)	**(24,371)**	(24,475)
Payments for purchase of investment securities		**(275,856)**	-	**-**	-
Payments for purchase of property, plant and equipment		**(455)**	-	**(276)**	-
Investments in controlled entities		**-**	-	**(58,613)**	(17,000)
Net cash provided by / (used in) investing activities		**(276,311)**	**-**	**(58,889)**	(17,000)
Loans from controlled entities		**-**	-	**-**	17,000
Net proceeds from capital issuance		**56,950**	17,000	**56,950**	17,000
Net intergroup transfers		**-**	-	**25,956**	6,256
Payments for amortisation of lease liability		**(79)**	-	**(79)**	-
Net cash provided by financing activities		**56,871**	17,000	**82,827**	40,256
Net increase/(decrease) in cash and cash equivalents		**32,570**	(181)	**(433)**	(1,219)
Cash and cash equivalents at beginning of the period		**2,498**	2,679	**1,358**	2,577
Cash and cash equivalents at end of year		**35,068**	2,498	**925**	1,358

Notes to the Financial Statements

1. General disclosures

a) Company information

86 400 is incorporated in Australia. The registered office of the business is:

Level 2
1 MARGARET STREET,
SYDNEY, NSW, 2000

b) Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with the Banking Act 1959, the Corporations Act 2001, and Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the separate financial statements of 86 400 and the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, 86 400 is a for-profit entity.

Compliance with Australian Accounting Standards ensures that the financial statements and notes of 86 400 and the Group comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board (IASB). Consequently, this financial report has been prepared in accordance with and complies with IFRS as issued by the IASB.

The financial statements were approved by the directors on 28 August 2020.

c) Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value, such as value in use in AASB 136 *Impairment of Assets*, leasing transactions that are within the scope of AASB 16 *Leases* and AASB 2 *Share-based Payment*.

Notes to the Financial Statements (continued)

1. General Disclosures (continued)

d) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the 86 400 and entities controlled by 86 400. Control is achieved when 86 400:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

86 400 reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when 86 400 obtains control over the subsidiary and ceases when 86 400 loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date 86 400 gains control until the date when 86 400 ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

e) Going Concern

The financial statements have been prepared on the going concern basis, anticipating the continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business. During the financial year ended 30 June 2020 the Group incurred a net loss after income tax benefit of $22.3m (2019: $10.9m), and used net cash outflows from operating and investing activities of $24.3m (2019: $17.2m). As at 30 June 2020, the Group has a net asset position of $49.7m (2019: $15m) and unrestricted cash and cash equivalents of $35m (2019: $2.5m). The increase in net assets throughout the year was predominantly due to $24m in capital injections from Cuscal Limited in July 2019, and completion of the Series A capital raising of $34.6m during February to April 2020. These amounts have been offset by capital raise transaction costs and current year operating losses.

The Directors recognise that as a start-up, as the Group builds scale and revenue from operations, net cash inflows from operating and investing activities will continue to be negative in the short to medium term. During the financial year, one of the Group's subsidiaries, 86 400 Ltd, was granted an unrestricted banking licence by APRA and successfully launched both deposit and lending products to begin generating revenue to offset operating losses. During the financial year ended 30 June 2020 86 400 Ltd accepted retail deposits of $310m and originated loans and commitments of $39m.

The Group has prepared a cash flow forecast which relies on the injection of additional capital in the next 12 months for its continued banking operations, including ongoing IT and product development. In August 2020, 86 400 initiated activities relating to the Series B capital raise, which targets new and existing sophisticated investors. As at 24 August 2020, the Series B capital raise is ongoing with no firm commitments or funds yet received, as commitments are not due until after the date of signing the financial statements. While the COVID-19 pandemic has had an impact on local and international capital markets, the Directors have a reasonable basis to believe that, based on the progress of the Series B capital raise to date, there is likely to be a sufficient level of interest from new and existing shareholders to raise the required capital for continued banking operations. In addition, the Directors have considered a number of cost saving opportunities, which can be implemented should the Series B or future capital rounds be delayed or under-subscribed.

Notes to the Financial Statements (continued)

1. General Disclosures (continued)

e) Going concern (continued)

Notwithstanding that there is always an element of uncertainty for start ups, and given the global uncertainty in capital markets arising from the COVID-19 pandemic, the Directors have a reasonable basis to believe that the Group will be successful in the above matters. In making this judgement, the Directors have considered the awarding of a banking licence to 86 400 Ltd, the growth and development during the year ended 30 June 2020, the progress in post balance date capital raising and the debt facilities in place to fund additional mortgage growth. Accordingly, the financial statements are prepared on the going concern basis.

Should the Group be unable to raise additional capital, a material uncertainty would exist that may cast significant doubt as to whether th Company and Group will be able to continue as a going concerns and, therefore, whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial statements.

f) Impact of new standards

The Group has adopted all of the new or revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current reporting period.

86 400 has adopted the following accounting standards and interpretations beginning 1 July 2020:

AASB 16 *Leases*

AASB 16 replaces the current AASB 117 Leases standard and sets out a comprehensive model for identifying lease arrangements and the subsequent measurement. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time. The majority of leases from lessee perspective within the scope of AASB 16 will require the recognition of 'right-of-use' asset and a released lease liability, being the present value of future lease payments. This will result in an increase in the recognised assets and liabilities in the Statement of Financial Position as well as change in expense recognition with interest and depreciation replacing operating lease expense.

	Consolidated 1 July 2019 $'000	Parent 1 July 2019 $'000
Operating lease commitments as at 1 July 2019, adjusted for early termination	372	372
Operating lease commitments discount based on incremental borrowing rate	(9)	(9)
Lease liability as at 1 July 2019	363	363
Right-of-use asset as at 1 July 2019	363	363
Increase / (decrease) in opening accumulated losses as at 1 July 2019	-	-

The Group applied AASB 16 when it entered into a new lease agreement which commenced on 1 May 2020. On initial recognition, the Group recognised Right-of -use asset of $3.2m and Lease liability of $3.0m (see Note 14).

Any new or revised Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Notes to the Financial Statements (continued)

1. General Disclosures (continued)

g) Controlled entities

The consolidated financial statements incorporate the financial statements of 86 400 and controlled subsidiaries as outlined below.

	Shareholding interest held		Number of shares issued		Place of incorporation	Principal activity
	2020	2019	2020	2019		
86 400 Ltd	100%	100%	73,513,024	14,900,000	Australia	Banking
86 400 Technology Pty Ltd	100%	100%	16,000,000	16,000,000	Australia	Customer Experience Engine provider

There are no restrictions on 86 400's ability to access or use assets of these companies and settle liabilities of the Group.

Investments in controlled entities held by 86 400 are carried in its financial statements at cost in accordance with AASB 127 *Separate Financial Statements*.

h) Critical accounting estimates and judgements

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Actual results may differ from these estimates. The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to these estimates are recognised in the period of the revision if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key accounting judgements were:

- Impairment of financial assets, see Note 13
- Intangible assets and impairment, see Note 16
- Recognition of deferred tax assets and availability of future taxable profit against carry-forward tax losses, see Note 9

i) Financial assets and liabilities

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The Group measures recognises and measures its financial instruments at amortised cost. Amortised cost is the amount at which a financial asset or financial liability is measured at initial recognition minus 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 loss allowance.

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Notes to the Financial Statements (continued)

1. General Disclosures (continued)

i) Financial assets and liabilities (continued)

The Group derecognises a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows from the financial asset in a transaction which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group removes a financial liability from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

Business model assessment

Classification and measurement of financial assets depends on the results of the solely payments of principal and interest ("SPPI") and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group monitors financial assets measured at amortised cost to understand the reason for any disposal and whether the reasons are consistent with the objective of the business for which the asset was held. No such changes in business model were required during the periods presented.

2. Net interest income / (expense)

	Consolidated		Parent	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Loans and advances	**183**	-	**-**	-
Investments	**963**	17	**-**	17
Due from other financial institutions	**17**	-	**-**	-
Cash and cash equivalents	**55**	-	**16**	-
Interest income	**1,218**	17	**16**	17
Deposit	**(2,253)**	-	**-**	-
Lease liability	**(25)**	-	**(25)**	-
Interest expense	**(2,278)**	-	**(25)**	-
Net interest income	**(1,060)**	17	**(9)**	17

Interest income and expense on all interest-bearing assets and liabilities, including both those at fair value and lease liabilities measured at amortised cost, are recognised in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument including transaction costs, premiums and discounts, but does not consider future credit losses.

Fees and costs which form an integral part of the effective interest rate of a financial instrument are recognised using the effective interest method and recorded in interest income or expense depending on whether the underlying instrument is a financial asset or liability (e.g. loan origination fees)

Notes to the Financial Statements (continued)

3. Net fee and commission income / (expense)

	Consolidated		Parent	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Product fees	74	-	-	-
Intercompany management fees	-	-	22,399	27,666
Fee and commission income	74	-	22,399	27,666
Deposit products	(1,454)	(397)	(2)	(75)
Loan products	(484)	-	(143)	-
Others	(110)	-	1	-
Fee and commission expense	(2,048)	(397)	(144)	(75)
Net fee and commission income / (expense)	(1,974)	(397)	22,255	27,591

Fee and commission income is recognised in accordance with AASB 15 *Revenue from Contracts with Customers*. Under AASB 15, revenue is recognised to depict the transfer of promised goods or services ("performance obligations") to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group applies the five-step approach in recognising revenue:

1. Identify the contract(s) with the customer
2. Identify the separate performance obligations in the contract(s)
3. Determine the transaction price
4. Allocate the transaction price
5. Recognise revenue when (or as) the performance obligation is satisfied

	Nature and timing of satisfaction of performance obligations	Revenue recognition under AASB 15
Product fees and charges	The Group provides banking services to retail customers. Product fees and charges includes fees for ongoing account management, as well as late repayment fees and other penalty charges. These fees and charges are charged to the customer's account as incurred. These fees exclude those that are required to be recognised under AASB 9.	Product fees and charges are recognised at the point in time when the transaction takes place.
Management fees	The Parent Company has an arrangement to provide administrative services to its controlled entities. As a result of this arrangement, the Parent Company receives management fee revenue from its controlled entities.	Expenses allocated by the Parent Company to its controlled entities represent distinct goods or services. Expenses are allocated without mark-up and the cost is the basis of the transaction price. Revenue is recognised upon allocation based on a systematic methodology determined by management.

Notes to the Financial Statements (continued)

4. Operating expenses

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Depreciation and amortisation

Depreciation and amortisation is calculated to write off the cost of items of property, equipment and intangible assets less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognised in profit or loss. Land is not depreciated.

	Estimated useful life
Computer equipment	3 years
Leasehold Improvements	5 years
Intangible assets	8 years
Right-of-use assets	Equivalent to the lease term

5. Auditor remuneration

86 400 paid the following remuneration to auditors during the financial year:

	Consolidated		Parent	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Deloitte Touche Tohmatsu				
Audit services	**190**	68	**42**	28
Non-audit services	**15**	75	**-**	-
Total remuneration paid to auditors	**205**	143	**42**	28

6. Employee Share Performance Rights Plan ("ESRP")

86 400 has an Employee Share Performance Rights Plan ('ESRP') for certain eligible employees of the Group. In accordance with the term of the plan, as approved by the Directors, certain employees determined by the Plan Committee may be eligible to participate in the scheme. Under the ESRP, an eligible employee may be conferred performance rights upon meeting certain conditions as described in the ESRP offer documents and plan rules.

The performance right is a contractual right that entitles an eligible employee to be issued a certain number of shares subject to the vesting and performance criteria. The number of shares that may be issued to the employee upon exercise of the performance rights shall be determined in accordance with the offer letters accepted by an eligible employee.

Notes to the Financial Statements (continued)

6. Employee Share Performance Rights Plan ("ESRP") (continued)

The fair value of the performance rights as at 30 June 2020 is $67,546 (2019: $60,721).

The movement of performance rights are as follows:

	Parent	
Number of performance rights	**2020**	**2019**
Opening balance	**10**	-
Granted	**1**	10
Closing balance	**11**	10
Exercisable as at 30 June 2020	**-**	-

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is recognised as expense in the profit or loss on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled shared-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

7. Key management personnel remuneration

Key management is defined as the 86 400 Leadership Team which includes the CEO and direct reports.

Remuneration of key management personnel are disclosed below:

	Consolidated		Parent	
	2020	**2019**	**2020**	**2019**
	$'000	**$'000**	**$'000**	**$'000**
Short-term employee benefits	**4,266**	2,640	**4,266**	2,640
Post-employment benefits	**358**	181	**358**	181
Total key management personnel remuneration	**4,624**	2,821	**4,624**	2,821

Notes to the Financial Statements (continued)

8. Related Parties

(a) Loans to directors and key management personnel

As at 30 June 2020, the outstanding balance of loans to directors and key management personnel was $1,440,264 (2019: $ nil). All loans to key management personnel are made on an arm's length basis, on the same terms and conditions as generally available to customers. All loans are secured by a residential mortgage and no amounts have been written down or recorded as allowances, as the balances are considered fully collectable.

(b) Directors' interests in contracts

As required by the Corporations Act 2001, some Directors have given notice that they hold office in other companies and as such are regarded as having an interest in any contract or proposed contract which may be between 86 400 and the Group and those companies.

All transactions between companies in which a Director is an officer and/or a member and 86 400 and the Group are transacted at arms' length under normal terms and conditions.

(c) Parent entity

Cuscal Ltd is the ultimate parent entity of 86 400 with Cuscal Ltd owning 70% of the Parent Company.

(d) Transactions and balances

Transactions and balances with related parties are in the normal course of business and details of the amounts paid or received from related entities in the form of loans, dividends, interest, management charges and asset usage fees are outlined below:

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Loans to / (from) Cuscal Ltd	**963**	2,595	**-**	(848)
Loans to 86 400 Technology Pty Ltd	**-**	-	**18,420**	7,944
Loans from 86 400 Ltd	**-**	-	**(18,362)**	(4,329)
Net loans to related parties	**963**	2,595	**58**	2,767
Management fee received - 86 400 Technology Pty Ltd	**-**	-	**9,847**	23,867
Management fee received – 86 400 Ltd	**-**	-	**12,551**	3,803
Fees paid to Cuscal Ltd	**(1,865)**	-	**-**	-
Total management fees from controlled entities	**(1,865)**	-	**22,399**	-

9. Income tax benefit / (expense)

(a) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Notes to the Financial Statements (continued)

9. Income tax benefit / (expense) (continued)

(b) Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

(c) Tax consolidation

86 400 Holdings Ltd and its controlled entities are tax consolidated with its ultimate parent Cuscal Ltd until 29 February 2020 when Cuscal Ltd's ownership interest in the Group was reduced as a result of the Series A capital raise. From 1 March 2020, 86 400 Holdings Ltd ('head entity') and its controlled entities are tax consolidated.

As part of this arrangement, the current tax balances of wholly owned subsidiaries are treated as if those were the head entity's own in addition to the current tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under a tax sharing and funding agreement with the tax-consolidated entities are recognised as intercompany amounts receivable or payable.

The income tax expense for the year is the tax payable on the current year's taxable income based on 86 400's income tax rate, adjusted for changes in deferred tax assets and liabilities and unused tax losses.

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Profit / (Loss) before income tax	**(29,465)**	(15,597)	**(149)**	(27)
Prima facie income tax at 30%	**(8,840)**	(4,679)	**(45)**	(8)
Effect of amounts which are non-deductible / (assessable) in calculating taxable income	**(97)**	3	**(90)**	3
Tax losses where no deferred tax asset has been recognised	**1,763**	-	**68**	-
Prior period current tax adjustments	**16**	4	**16**	39
Income tax expense / (benefit)	**(7,158)**	(4,672)	**(51)**	34

Notes to the Financial Statements (continued)

9. Income tax benefit / (expense) (continued)

	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Current tax expense / (benefit)	**(8,936)**	(5,826)	**(135)**	1,194
Adjustments in respect of current income tax of previous years	**(89)**	(39)	**128**	(39)
Adjustments in respect of previous years deferred income tax	**(124)**	(523)	**(255)**	78
Relating to origination and reversal of temporary differences	**1,991**	1,716	**211**	(1,199)
Income tax expense / (benefit)	**(7,158)**	(4,672)	**(51)**	34

The composition of deferred tax assets and liabilities in the statement of financial position is as follows:

	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Deferred tax assets				
Other liabilities	**1,502**	1,178	**1,287**	1,178
Provisions – employee entitlements	**344**	207	**344**	207
Provisions – impairment	**64**	–	**–**	–
Other assets	**167**	19	**32**	19
Unused tax losses	**1,744**	–	**–**	–
Total deferred tax assets	**3,821**	1,404	**1,663**	1,404
Deferred tax liabilities				
Intangible assets	**(3,848)**	(3,422)	**(48)**	–
Total deferred tax liabilities	**(3,848)**	(3,422)	**(48)**	–

	Consolidated Opening $'000	Consolidated Charged to profit or loss $'000	Consolidated Closing balance $'000	Parent Opening balance $'000	Parent Charged to profit or loss $'000	Parent Closing $'000
Deferred tax assets						
Other liabilities	1,178	324	**1,502**	1,178	109	**1,287**
Provisions – employee entitlements	207	137	**344**	207	137	**344**
Provisions – impairment	–	64	**64**	–	–	**–**
Other assets	19	148	**167**	19	13	**32**
Unused tax losses	–	1,744	**1,744**	–	–	**–**
Total deferred tax assets	1,404	2,417	**3,821**	1,404	259	**1,663**
Deferred tax liabilities						
Intangible assets	3,422	426	**3,848**	–	48	**48**
Total deferred tax liabilities	3,422	426	**3,848**	–	48	**48**

Notes to the Financial Statements (continued)

9. Income tax benefit / (expense) (continued)

(d) Tax losses

At the reporting date, the Group has unused tax losses of $1.7m (2019: $nil) available for offset against future profits. Deferred tax assets relating to current taxable losses have been recognised as the expected value of the tax losses based on a range of scenarios of future taxable profits which are expected to be available against which they can be realised. The assumptions used to estimate future taxable profits include expectations on product and customer growth, mortgage balances and interest margins. Included in unrecognised tax losses are losses of $1.7m (2019: nil) that may be carried forward indefinitely subject to meeting criteria as set out by the Australian Taxation Office.

10. Cash and cash equivalents

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Cash at Bank	**35,068**	2,498	**925**	1,358
Cash and Cash Equivalents	**35,068**	2,498	**925**	1,358

Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which have an insignificant risk of changes in value. Cash and cash equivalents are financial assets measured at amortised cost.

11. Investments

	Consolidated		Parent	
Financial assets measured at amortised cost	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Floating rates notes	**36,544**	-	**-**	-
Term Deposits	**2,031**	-	**-**	-
Other deposits not at call	**166**	-	**166**	-
Total Due from other financial institutions	**38,741**	-	**166**	-
Government Securities	**190,369**	-	**-**	-
Semi-Government Securities	**46,913**	-	**-**	-
Total Investment Securities	**237,282**	-	**-**	-
Less: Provision for impairment	**(9)**	-	**-**	-
Financial assets at amortised cost	**276,014**	**-**	**166**	**-**

Due from other financial institutions

Due from other financial institutions comprise other deposits not at call. Due from other financial institutions are financial assets measured at amortised cost.

Notes to the Financial Statements (continued)

11. Investments (continued)

Investment securities at amortised cost

Investment securities include other debt securities such as bonds and floating rate notes that are measured at amortised cost. The Group's business model is to hold these investment securities to collect contractual cash flows which represent solely payments of principal and interest.

12. Loans and advances to customers

	Consolidated		Parent	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Loans to retail customers	28,580	-	-	-
Loans to key management personnel	1,440	-	-	-
Less: Net deferred income and expenses	(7)	-	-	-
Less: Provision for impairment	(95)	-	-	-
Loans and advances to customers	29,918	-	-	-

Loans and advances are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market and are measured at amortised cost. They include secured loans made to retail borrowers.

13. Provision for impairment of financial assets

	Consolidated		Parent	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Investments	9	-	-	-
Loans and advances to customers	95	-	-	-
Other financial assets	4	-	-	-
Total provision for impairment	108	-	-	-

The following shows the movement in provisions during the year:

	Consolidated			
	Stage 1	Stage 2	Stage 3	Total
	$'000	$'000	$'000	$'000
Balance at 1 July 2019	-	-	-	-
Movement due to increase in financial assets	108	-	-	108
Movement due to change in credit risk	(14)	14	-	-
Balance at 30 June 2020	**94**	**14**	**-**	**108**

Notes to the Financial Statements (continued)

13. Provision for impairment of financial assets (continued)

	Parent			
	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Balance at 1 July 2019	-	-	-	-
Transfers between stages	-	-	-	-
Movement due to increase in financial assets	-	-	-	-
Movement due to change in credit risk	-	-	-	-
Bad debts written off from provisions	-	-	-	-
Changes in model/risk parameters	-	-	-	-
Balance at 30 June 2020	-	-	-	-

There were no impairment provisions recognised as at 30 June 2019.

Impairment of financial assets

The Group applies a three-stage approach to measuring expected credit losses (ECLs) for the following categories of financial assets that are not measured at fair value through profit or loss:

- Loans and advances to customers
- Other financial assets measured at amortised cost

Exposures are assessed on a collective basis in each stage unless there is sufficient evidence that one or more events associated with an exposure could have detrimental impact on estimated future cash flows. Where such evidence exists, the exposure is assessed on an individual basis. Loans that are collectively assessed are grouped on the basis of similar risk characteristics such as geographic location, collateral, past due status and other relevant factors. Where there is not enough internal data to make a reliable collective assessment, loans and advances may be assessed on an individual basis.

Three-stage approach

The following stages and measurement bases are identified:

- Stage 1 (12-month ECL) – the portion of lifetime ECL associated with the probability of default (PD) of default events occurring within the next 12 months;
- Stage 2 (Lifetime ECL – not impaired) – ECL associated with the probability of default throughout the life of an instrument; and
- Stage 3 (Lifetime ECL – impaired) – Lifetime ECL, but interest revenue is measured based on the carrying amount of the instrument net of associated ECL.

At each reporting date, the Group assesses the credit risk of exposures in comparison to the risk at initial recognition, to determine the stage that applies to the associated ECL measurement. If the credit risk has increased significantly since initial recognition, the asset will migrate to Stage 2. If no significant increase in credit risk is observed, the asset will remain in Stage 1. Should an asset become impaired, it will be transferred to Stage 3 and assessed on an individual basis.

Notes to the Financial Statements (continued)

13. Provision for impairment of financial assets (continued)

Significant increase in credit risk:
The following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular instrument;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers reasonable and supportable information that is relevant and available without undue cost or effort, for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

Measurement of ECL
ECL is calculated as the product of the following parameters:

$$ECL = Exposure\ at\ Default\ \times Probability\ of\ Default\ \times Loss\ Given\ Default$$

- Probability of default (PD) – the 12-month and lifetime PD represent the expected point-in-time PD over the next 12 months and remaining lifetime (marginal PD) of the financial instrument, respectively. In the absence of meaningful internal data, the Group may use historical external data to estimate PD depending on the class of financial asset.
- Loss given default (LGD) – represents the expected loss conditional on default, considering the mitigating effect of collateral, its expected value when realised and time value of money. For loans and advances to customers, the Group uses the Loan-to-Value Ratio ('LVR') as an indicator for potential loss in the event of default.
- Exposure at default (EAD) – represents the expected outstanding amount of credit exposure at the time of default, taking into account the repayment of principal and interest from the reporting date to the default event together with any unexpected drawdown of a facility.

PD and LGD are assessed using historical data adjusted by forward-looking information such as macro-economic forecasts and assumptions which include but are not limited to unemployment rates, interest rates, inflation, property prices, etc.

Notes to the Financial Statements (continued)

13. Provision for impairment of financial assets (continued)

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- where there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without considering any collateral held by the Group)

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

14. Deposits

	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Transaction accounts	10,408	-	-	-
Savings accounts	299,255	-	-	-
Wholesale term deposits	250	-	-	-
Total deposits	309,913	-	-	-

Retail and wholesale deposits are measured at amortised cost and are recognised as the aggregate amount of money owing to depositors. Included in transaction and savings accounts are balances which are offset against loans and advances to customers for the purpose of calculating interest charged. The amount of interest accrued at balance date is shown as part of payables.

15. Property, plant, equipment and leases

	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Leasehold improvements – at cost	224	-	224	-
Less: Accumulated depreciation	(7)	-	(7)	-
	217	-	217	-
Right-of-use assets	3,211	-	3,211	-
Less: Accumulated depreciation	(107)	-	(107)	-
	3,104	-	3,104	-
Computer equipment – hardware – at cost	230	-	52	-
Less: Accumulated depreciation	(43)	-	(15)	-
	187	-	37	-
Total property, plant and equipment	3,508	-	3,358	-

Notes to the Financial Statements (continued)

15. Property, plant, equipment and leases (continued)

Reconciliations of the written down values at the beginning and end of the current year (2019: $nil) are set out below:

Consolidated	Leasehold Improvements $'000	Right-of-use assets $'000	Computer equipment - hardware $'000	Total $'000
Balance at 1 July 2019	-	-	-	-
Additions	224	3,211	230	3,665
Disposals	-	-	-	-
Depreciation expense	(7)	(107)	(43)	(157)
Balance at 30 June 2020	**217**	**3,104**	**187**	**3,508**

Parent	Leasehold Improvements $'000	Right-of-use assets $'000	Computer equipment - hardware $'000	Total $'000
Balance at 1 July 2019	-	-	-	-
Additions	224	3,211	53	3,487
Disposals	-	-	-	-
Depreciation expense	(7)	(107)	(15)	(129)
Balance at 30 June 2020	**217**	**3,104**	**37**	**3,358**

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and disposal proceeds are taken to profit or loss.

Leases

The Group has applied AASB 16 for the first time during the year. The Group assesses whether a contract is, or contains, a lease, at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The largest lease commitment is in respect of the Group's head office at 35 Clarence St, Sydney. The lease commenced on 1 May 2020 and expires on 30 April 2025.

Right-of-use assets

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

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

On 1 May 2020, the Group recognised additions to the right-of-use assets of $3.2m.

Notes to the Financial Statements (continued)

15. Property, plant, equipment and leases (continued)

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the 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. The Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early

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 estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its 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.

Depreciation of the right-of-use asset is included under operating expenses, and interest expense on the lease liability is recognised under net interest income in the statement of profit or loss and other comprehensive income.

16. Intangible assets

Ongoing expenditure for the Customer Experience Engine ("CXE") will be incurred to improve the functional capabilities of the asset in line with current technology.

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Intangible assets – Customer Experience Engine				
Opening balance, before R&D incentives	**17,691**	5,123	**-**	-
Amounts capitalised during the year	**6,485**	12,568	**-**	-
Closing balance, before R&D incentives and amortisation	**24,176**	17,691	**-**	-
Less: Accumulated amortisation	**(2,286)**	-	**-**	-
Carrying value, before R&D incentives	**21,890**	17,691	**-**	-
R&D incentives	**(1,218)**	(970)	**-**	-
Total intangible assets	**20,672**	16,721	**-**	-

Notes to the Financial Statements (continued)

16. Intangible assets (continued)

The CXE asset comprises the costs (including eligible internal and external labour costs, and vendor costs) associated with the development and set up of the CXE'S core banking capability, without which the banking business could not operate. During the year, the CXE asset became operational, and as such, amortisation has been provided.

Recognition and measurement

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the development of an internal project is recognised if and only if, all of the following have been demonstrated:

a. the technical feasibility of completing the intangible asset so that it will be available for use or sale;
b. the intention to complete the intangible asset and use or sell it;
c. the ability to use or sell the intangible asset;
d. how the intangible asset will generate probable future economic benefits;
e. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
f. the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. The costs of external consultants engaged to develop the intangible asset or to modify purchased intangibles such as software, internal labour costs directly related to the project and project management costs directly related to the intangible asset are included. No general management costs or share of overheads are capitalised.

Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

During the year, the Group capitalised $6.5m in employment and technology costs arising from the development of the CXE which include new features made available to the smartphone application released to customers, and enhancements to various components of the CXE that enable the Group to provide and service mortgage and deposit products.

The CXE is amortised from the point at which it is ready for use on a straight-line basis over its estimated useful life of 8 years.

Impairment

At each reporting date, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets are impaired. In accordance with AASB 136 *Impairment of Assets*, an impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and its value-in-use (VIU).

During the year, the Group estimated the fair value less costs of disposal of the CXE using an implied valuation derived from the Group's Series A capital raise. Additionally, the Group considered the sensitivity of the determination of fair value as at the reporting date due to the economic uncertainty brought by COVID-19 on unlisted equity values. When a 20% haircut is applied to the implied valuation, there was still a resulting headroom to support the carrying value of the CXE.

The carrying value of the CXE was compared to its recoverable amount which is the VIU calculated based on the five-year financial forecasts of the consolidated business of the Group. In calculating the VIU, the Group

Notes to the Financial Statements (continued)

16. Intangible assets (continued)

used a pre-tax discount rate of 15% reflecting the Group's pre-tax weighted average cost of capital ("WACC"), and a perpetual terminal growth rate of 1%.

During the year, the directors considered the recoverability of the Group's internally generated intangible asset arising from the development of its CXE, which is included in the consolidated statement of financial position. The directors have determined that the CXE asset is fully recoverable as at the reporting date.

The impairment assessment carried out as at 30 June 2020 showed that the recoverable amount is higher than the carrying amount of the CXE asset. As such, no impairment is recognised.

Research and development incentives

The CXE project which the Group has developed qualify for Research and Development Incentives provided by the Australian Government.

Research and development incentives are recognised in accordance with AASB 120 Accounting for Government Grants and Disclosure of Government Assistance in the period in which the qualifying expenditure is incurred. Where that qualifying expenditure has been capitalised, the incentive is treated as a reduction of the carrying value of the asset developed and the benefit of the grant flows to profit or loss as reduced depreciation and amortisation expenses in future periods. Where that qualifying expenditure has been taken to profit or loss, the incentive is treated as a reduction of the expense item.

17. Other assets

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Input GST	**280**	91	**-**	548
Accrued interest receivable	**246**	-	**-**	-
Deferred fees and commissions	**266**	-	**-**	-
Security deposits	**35**	35	**35**	35
Prepayments	**755**	435	**168**	435
Other assets	**687**	58	**-**	50
Provision for impairment - prescribed	**(4)**	-	**-**	-
Total other assets	**2,265**	619	**203**	1,068

18. Payables and provisions

Payable and Provisions	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Creditors	**344**	54	**167**	54
Accruals	**1,450**	2,728	**438**	2,546
Other liabilities	**211**	10	**725**	1,268
Payables	**2,005**	2,792	**1,330**	3,868
Annual leave	**797**	488	**797**	488
Bonuses	**2,352**	1,881	**2,352**	1,881
Long service leave	**350**	203	**350**	203
Other provisions	**314**	-	**144**	-
Provisions	**3,813**	2,572	**3,643**	2,572
Total payables and provisions	**5,818**	5,364	**4,973**	6,440

Notes to the Financial Statements (continued)

18. Payables and provisions (continued)

Movements within provisions	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Carrying amount at beginning of the year	**2,572**	251	**2,572**	251
Additional provision recognised	**2,444**	2,321	**2,274**	2,321
Amounts utilised during the year	**(1,203)**	-	**(1,203)**	-
Carrying amount at end of year	**3,813**	2,572	**3,643**	2,572

Payables and provisions

These amounts represent liabilities for goods and services provided to the Group prior to the end if the financial year which are unpaid. Due to their short-term nature they are measures at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Short term employee benefits

Liabilities for employee benefits which represent present obligations resulting from employees' services provided to reporting date are calculated at amounts based on remuneration, wage and salary rates that the Group expects to pay as at reporting date, including related on-costs such as workers compensation, superannuation and payroll tax. Non-accumulating non-monetary benefits, such as motor vehicles and subsidised goods and services, are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

Long term employee benefits

The liability for employee benefits for long service leave represents the present value of the estimated future cash outflows to be made by the Group resulting from employees' services provided in the current and prior financial reporting periods, as at balance date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted to determine its present value. The unwinding of the discount is treated as long service leave expense.

19. Risk management

The Board of Directors ('the Board') has overall responsibility for the establishment and oversight of the risk management framework. To assist in performing the role of overseeing risk management, the Board has established the Board Risk Committee ('BRC') and Board Audit Committee ('BAC').

The BRC is responsible for developing and monitoring risk management policies and overseeing how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The BRC reports regularly to the Board of Directors on its activities. Management has established the Risk Management Team that contributes to the oversight of risk management and regularly reports to the BRC on their activities.

Notes to the Financial Statements (continued)

19. Risk Management (continued)

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The BAC is responsible for overseeing the financial reporting, audit and control framework of the Group. The BAC is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the BAC and the Board of Directors.

The table below sets out the Group's exposure to financial risks and how these risks could affect the Group's future financial performance:

Risk	Definition	Exposure	Measurement	Management
Credit risk	Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.	• Cash and cash equivalents • Due from other financial institutions • Investment securities at amortised cost • Loans and advances to customers • Other financial assets	• Exposure and impairment analysis • Past due and aging analysis • Credit analysis • Financial analysis • Serviceability analysis	See Notes 13 and 19(a)
Liquidity risk	Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial instruments.	• Deposit liabilities • Payables • Undrawn loan commitments	• Rolling cash flow forecast • Contractual maturity analysis • Large exposures analysis • Minimum Liquidity Holdings (MLH) ratio	See Note 19(b)
Market risk – interest rate	The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.	• Cash and cash equivalents • Due from other financial institutions • Investment securities at amortised cost • Loans and advances to customers • Deposit liabilities	• Net interest earnings at risk (NIER) • Repricing analysis	See Note 19(c)
Market risk – fair value	Certain accounting policies and disclosures require the determination of fair values.	The Group and the Parent Company do not have any exposure to financial instruments measured at fair value as at 30 June 2020.	Fair values have been determined for measurement and/or disclosure purposes based on the methods disclosed in Note 18(d)	See Note 19(d)
Operational risk	Operational risk is the risk of loss arising from systems failure, human error, fraud or external events.	• Inadequate or failed internal processes, people and systems • Failure or perceived failure to comply with relevant laws, regulations and the Group's policies	• Risk and Controls Assessment • Incident Reporting • Scenario Analysis	• Risk Management Strategy • Risk Appetite Statement • Operational Risk Policy • Compliance Framework

Notes to the Financial Statements (continued)

19. Risk Management (continued)

a) Credit risk

The Board of Directors has delegated responsibility of the day-to-day management of credit risk to the Credit Team, Collections Team and Executive Risk Management Committee.

Credit risk is managed principally through embedded controls in the loans origination process. Lending is carried out within the parameters of lending policies (covering approvals, documentation and management). In the case of the Group, where the past loss experience is measurable within the bank's existing database for only a 12-month period or less, wider experience from other financial institutions detailed in published material such as from APRA has been considered. However, the small number of borrowers to date also permits the application of the principles on an individual loan basis where the borrowers of higher risk of default are identified based on set criteria.

To maintain the quality of the lending portfolio, prudential standards have been followed and lending policies have been established.

Credit processes are typically structured so that loan origination, approval, document preparation, settlement and account monitoring and control are segregated to different individuals or areas. Credit must be evaluated against established credit policies and be structured, particularly in terms of security, to be prudent for the risk incurred. The Credit Team assesses credit beyond the lending authorities of lending groups and/or outside normal policies and guidelines. The Risk Management Team regularly reviews credit quality, arrears, and expected credit losses, and reports to the Board of Directors.

Risk and Internal Audit personnel regularly test internal controls and adherence to credit policies and procedures. The Group applies standard credit risk assessment criteria to all extensions of credit, from credit scoring systems for basic retail products to complete credit assessment for commercial and business loans.

The quantification of credit risk is performed by analytical tools and models, which provide estimates of expected credit losses (refer to note 13).

Management regularly reports to the Board of Directors on arrears, portfolio composition and stress testing, all approvals with an exception to policy, and all staff loans.

Counterparty risk for investments in financial instruments is generally limited to Australian-owned banks, APRA regulated foreign subsidiary banks and other APRA-regulated ADIs.

In managing the future forecasts of credit risk, the experiences of the wider financial market from the COVID-19 pandemic impact are only currently understood and measured and the impacts will continue to evolve in the coming months due to the significant uncertainty that exists at present. The Group is at present well placed to assess the potential impact by reference to the loan assessment data being relatively current and accessible.

Exposures to credit risk

The Group's maximum exposure to credit risk at balance date, in relation to each class of recognised financial asset, is the carrying amount of those assets as stated in the Statement of Financial Position. The maximum credit risk exposure does not consider the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question

Notes to the Financial Statements (continued)

19. Risk Management (continued)

a) Credit risk (continued)

The Group's maximum exposure to credit risk at the reporting date is:

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
On-balance sheet credit risk exposures				
Cash and cash equivalents	**35,068**	2,498	**925**	1,358
Investments	**276,014**	-	**166**	-
Loans and advances to customers	**30,020**	-	**-**	-
Due from related parties	**963**	2,595	**18,420**	7,944
Other financial assets	**523**	126	**35**	35
Total	**342,588**	5,219	**19,546**	9,337
Off-balance sheet credit risk exposures				
Loans approved but not yet advanced	**8,657**	-	**-**	-
Total	**8,657**	-	**-**	-
Total credit risk exposures	**351,245**	5,219	**19,546**	9,337

The Group's maximum exposure to credit risk for loans and advances to customers at the reporting date by geographic location is:

	Consolidated		Parent	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
New South Wales	**17,802**	-	**-**	-
Queensland	**2,991**	-	**-**	-
Victoria	**7,464**	-	**-**	-
Western Australia	**1,389**	-	**-**	-
Tasmania	**258**	-	**-**	-
Australian Capital Territory	**116**	-	**-**	-
Total	**30,020**	-	**-**	-

Collateral

The Group holds collateral and other credit enhancements to cover its credit risks associated with on balance sheet and off-balance sheet credit risk exposures. The estimated value of collateral and other credit enhancements amounts to $89.2m as at 30 June 2020 (2019: $nil). The estimated value of collateral is based on the market value on origination of the collateral and is not capped to the value of the exposure. The fair value of collateral is determined by using an acceptable valuation of the property for each borrowing application. The type of valuation required is fundamentally driven by the associated risk of each borrower and is determined by considering a number of different factors such as loan to value ratio, loan amount, security amount, security location, purpose of loan and source documentation supporting the borrowers' estimates. Acceptable valuations include but are not limited to a contract of sale, rates notice, electronic valuations and valuations by registered valuers.

Notes to the Financial Statements (continued)

19. Risk Management (continued)

a) Credit risk (continued)

Past due loans

As at 30 June 2020, no loans and advances to customers are past due.

b) Liquidity risk

The Group has a liquidity management strategy that ensures that Minimum Liquidity Holdings (MLH) that are always available for the Group's cash flow and liquidity requirements. The Group also has other liquid assets that are over and above the MLH prudential requirements, and these are included in total liquidity calculations.

Liquidity standards which are set and approved by the Board ensure that at a minimum the APRA standards are sufficiently met. Liquidity positions are monitored daily, and monthly stress testing occurring to measure the Group's capacity to withstand accelerated deterioration of liquidity. Frameworks have been set and approved by the Board in relation to liquidity allocations and early warning indicators, which are designed to ensure sufficient escalation channels are available with appropriate timeframes to respond to liquidity movement. The details of the Group's MLH at reporting date are as follows:

	Consolidated 2020 $'000
Total adjusted MLH	**309,822**
Total adjusted liability base	**331,516**
MLH ratio as at 30 June	**93.46%**

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group has an overdraft facility with which it can access emergency liquidity through an RBA repo facility in place to assist in adequately managing liquidity.

The Group's Risk Management Team assists with the oversight of asset and liability management – including liquidity risk management. The Group's liquidity policies are approved by the Board of Directors, after endorsement by the Risk Management Team and the Board Risk Committee ("BRC").

Notes to the Financial Statements (continued)

19. Risk Management (continued)

b) Liquidity risk (continued)

The following are the undiscounted contractual maturities of financial liabilities and off-balance sheet items, including estimated interest payments and excluding impact of netting agreements:

	Consolidated		Parent	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Deposit liabilities				
Carrying Amount	**309,913**	-	**-**	-
<1 month	**309,663**	-	**-**	-
1 to 3 months	**250**	-	**-**	-
3 months to 1 year	**-**	-	**-**	-
1 to 5 years	**-**	-	**-**	-
More than 5 years	**-**	-	**-**	-
Loans approved but not advanced				
Carrying Amount	**8,657**	-	**-**	-
<1 month	**8,657**	-	**-**	-
1 to 3 months	**-**	-	**-**	-
3 months to 1 year	**-**	-	**-**	-
1 to 5 years	**-**	-	**-**	-
More than 5 years	**-**	-	**-**	-

c) Market risk

Management of interest rate risk

Interest rate risk is managed principally through monitoring interest rate gaps, and by having pre-approved limits for re-pricing bands. The principal tool to measure and control interest rate risk exposure within the Group's interest earning assets and liabilities are:

- Net Interest Earnings at Risk (NIER) – NIER is the worst-case change in earnings due a 100bps parallel shock in interest rates over a 12-month time horizon.
- Present Value of a Basis Point (PVBP) – Dollar impact of a 1 basis point movement in the yield curve.

Exposures to interest rate risk

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments is as follows:

	Consolidated		Parent	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Fixed rate instruments				
Financial assets	**318,540**	2,498	**1,092**	1,358
Financial liabilities	**(250)**	-	**-**	-
Total	**318,290**	2,498	**1,092**	1,358
Variable rate instruments				
Financial assets	**60,685**	-	**-**	-
Financial liabilities	**(299,255)**	-	**-**	-
Total	**(238,570)**	-	**-**	-

Notes to the Financial Statements (continued)

19. Risk Management (continued)

c) Market risk (continued)

Interest rate sensitivity

The sensitivity analysis on interest rate risk is performed using the methodology of GAP IRR. The GAP IRR methodology is a method of measuring interest rate sensitivity by classifying interest rate sensitive assets, liabilities and off-balance sheet items. The instruments are split into specific pre-defined time buckets according to their maturity for fixed rate instruments, or till next re-pricing date for variable rate instruments. The size of the gap position can then be determined in each of the respective time buckets. A cumulative gap can also then be given after summing up the individual time bucket gaps. Result of the analysis is as follows:

	Consolidated		Parent	
	Increase / (decrease) to profit			
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Increase in yield curve of 50 bps	**(210)**	12	**4**	6
Decrease in yield curve of 50 bps	**210**	(12)	**(4)**	(6)

d) Fair value

Except as outlined in the following table, the carrying amounts of financial assets and financial liabilities recognised in financial statements at amortised cost approximate their fair value as at reporting date:

	Consolidated		Parent	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Investments - bonds, floating rate notes and treasury notes				
Carrying value	**273,824**	-	**-**	-
Fair value				
Level 1	**-**	-	**-**	-
Level 2	**274,024**	-	**-**	-
Level 3	**-**	-	**-**	-
Total	**274,024**	-	**-**	-

Cash and cash equivalents

The carrying amount approximates fair value because of their short term to maturity or the fact that they are receivable on demand.

Payables

The carrying amount approximates fair value as they are short term in nature.

Loans and advances to customers

The carrying value of loans and advances is net of specific provisions for impairment. For variable loans and loans with rates fixed for a period less than six months, the carrying amount is a reasonable estimate of net fair value. The fair value of fixed rate loans greater than six months was calculated by discounting the future interest cash flows using a discount rate based on the current market rate, assuming constant interest rate spreads, for the average remaining term.

Notes to the Financial Statements (continued)

19. Risk Management (continued)

d) Fair risk (continued)

Deposits

The carrying amount of at call deposits approximates fair value as they are short term in nature or are payable on demand.

The fair value of term deposits carried at amortised cost is estimated using discounted cash flow analysis, based on current incremental deposit rates for similar deposit products. The nominal interest rates used have been applied to all interest payments made for deposits repricing in a given period. The methodology used to determine the net fair value of the known future cash flows is in accordance with generally accepted discounted cash flow analysis.

Fair value hierarchy

The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as process) or indirectly (i.e. derived from process).
- Level 3: Inputs for the asset or liability that are not based on an observable market data (unobservable inputs).

20. Capital management

APRA sets a prudential capital requirement (PCR) for each ADI that sets capital requirements in excess of the minimum capital requirement of 8%. A key input into the PCR setting process is the Group's Internal Capital Adequacy Assessment Process (ICAAP). The PCR remains confidential between each ADI and APRA in accordance with accepted practice. The Group calculates capital requirements by analysing various major risks faced by the Group and ensuring appropriate levels of capital are maintained to cover those risks. Major risks considered include credit risk, interest rate risk, liquidity risk, operational risk, reputational risk and economic risk.

The Group's policy is to maintain adequate capital to protect the interests of members, cover risk and support future growth. The Group has complied with all externally imposed capital requirements throughout the period.

Regulatory capital

The Group's regulatory capital position at 30 June was as follows:

	Consolidated 2020 $'000
Regulatory capital	**28,767**
Risk weighted assets	**88,544**
Regulatory capital expressed as a percentage of total risk weighted assets	**32%**

Risk weighted assets are determined according to specific requirements that seek to reflect the varying level of risk attached to assets and off-balance sheet exposures. Regulatory capital is managed using the Basel III standard methodology and Prudential Standard APS 112 *Capital Adequacy: Standardised Approach to Credit Risk*.

Notes to the Financial Statements (continued)

20. Capital Management (continued)

Full disclosures required under Pillar 3, per Prudential Standard APS 330 "Public Disclosure", are provided on the Consolidated Entity's website.

Issued capital

Each ordinary share carries one voting right and ranks equally for ordinary dividends.

	Consolidated		Parent	
	2020	2019	2020	2019
Issued and fully paid ordinary shares	$'000	$'000	$'000	$'000
Opening balance	**31,000**	14,000	**31,000**	14,000
Issued during the year	**58,613**	17,000	**58,613**	17,000
Total issued	**89,613**	31,000	**89,613**	31,000
Less: Share issuance costs	**(1,663)**	-	**(1,663)**	-
Total issued capital, net	**87,950**	31,000	**87,950**	31,000

	Consolidated		Parent	
	2020	2019	2020	2019
Issued and fully paid ordinary shares	# of shares	# of shares	# of shares	# of shares
Opening balance	**31,000,000**	14,000,000	**31,000,00**	14,000,000
Issued during the year	**49,639,278**	17,000,000	**49,639,278**	17,000,000
Total issued capital	**80,639,278**	31,000,000	**80,639,278**	31,000,000

During the year, the Parent Company raised $58.6m, being $24m in July 2020 and $34.6m in the Series A capital raise in March 2020.

Share issuance costs

Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments

Share-based payment reserve

Share-based payment reserve comprises the value as at reporting date of equity-settled share-based payment transactions.

General reserve for credit losses

GRCL represents reserves established under Prudential Standard APS 220 that, as a minimum, covers credit losses prudently estimated but not certain to arise over the full life of all the individual facilities making up the business of the Group.

Notes to the Financial Statements (continued)

21. Commitments and contingencies

	Consolidated		Parent	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Credit related commitments				
Loans approved but not yet advanced	**8,657**	-	**-**	-

Credit related commitments

Binding commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Contingencies

In the normal course of business, the Group enters into various types of contracts that give rise to contingencies or future obligations. These contracts generally relate to the financing needs of customers. The Group uses the same credit policies and assessment criteria in making commitments and conditional obligations for off-balance sheet risks as it does for on-balance sheet loan assets. The Group holds collateral supporting these commitments where it is deemed necessary.

22. Reconciliation of net cash flows from operating activities

	Consolidated		Parent	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Profit / (Loss) for the year	**(22,307)**	(10,925)	**(98)**	(60)
Adjustments for:				
Non-cash expenses	**(6,472)**	(11,755)	**7**	-
Management fee	**-**	-	**(22,399)**	(27,671)
Depreciation and amortisation	**2,443**	-	**129**	-
Share-based payment expense	**4**	15	**4**	15
Changes in operating assets and liabilities				
Other liabilities	**3,111**	-	**3,025**	-
Payables and provisions	**520**	4,095	**(802)**	5,169
Other assets	**(1,754)**	(359)	**199**	(807)
Investments	**(166)**	-	**(166)**	-
Property and equipment	**(3,211)**	-	**(3,211)**	-
Income tax liability	**425**	-	**48**	-
Loans and advances	**(30,014)**	-	**-**	-
Deposits and other borrowings	**309,904**	-	**-**	-
Deferred tax assets	**(2,416)**	1,716	**(259)**	(1,121)
Due from/to related parties	**1,943**	32	**(848)**	-
Net cash flows from operating activities	**252,010**	(17,181)	**(24,371)**	(24,475)

23. Subsequent events

There has not been any matter or circumstance that has arisen since the end of the period, that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future periods.

Director’s Declaration

The Directors of 86 400 declare that in their opinion:

a) There are reasonable grounds to believe that 86 400 will be able to pay its debts as and when they become due and payable;

b) The attached financial statements are in compliance with Australian and International Financial Reporting Standards; and

c) The attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of 86 400 and the group.

Signed in accordance with a resolution of the Directors made pursuant to s.295 (5) of the Corporations Act 2001.

On behalf of the Directors

Anthony Thomson
Chairman
Sydney, 28 August 2020

Deloitte.

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Independent Auditor's Report to the Members of 86 400 Holdings Ltd

Opinion

We have audited the financial reports of 86 400 Holdings Ltd (the "Company") and its subsidiaries (the "Group") which comprises the Group and the Company's statements of financial position as at 30 June 2020, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

(i) giving a true and fair view of the Group and the Company's financial position as at 30 June 2020 and of their financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Reports* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & 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 reports in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company (the "directors"), would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1(e) in the financial statements, which indicates that the Group has incurred a consolidated loss after income tax benefit of $22.3m (2019: $10.9m) and used net cash outflows from operating and investing activities of $24.3m (2019: $17.2m) during the year ended 30 June 2020. As stated in note 1(e), these events or conditions, along with other matters as set forth in note 1(e), indicate that a material uncertainty exists that may cast significant doubt on the Company and Group's ability to continue as going concerns. Our opinion is not modified in respect of this matter.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's directors' report for the year ended 30 June 2020, but does not include the financial reports and our auditor's report thereon.

Our opinion on the financial reports does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial reports, our responsibility is to read the other information and, in doing so, 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. If, based on the work we

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have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors are responsible for the preparation of the financial reports that give a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial reports that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial reports, the directors are responsible for assessing the ability of the Group and the Company to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Reports

Our objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial reports, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group or the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial reports or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Company to cease to continue as going concerns.

- Evaluate the overall presentation, structure and content of the financial reports, including the disclosures, and whether the financial reports represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditor's Report (continued)

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Mark Lumsden
Partner
Chartered Accountants
Sydney, 28 August 2020